

CRANFIELD UNIVERSITY

JUAN PABLO DAVILA

CORPORATE GOVERNANCE AND FIRM VALUE: EVIDENCE FROM COLOMBIA AND
MEXICO

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DBA THESIS

Academic Year: 2006 - 2014

Supervisor: Professor Sunil Poshakwale

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DBA Thesis

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Abstract

This research is the result of the author's quest to answer the question whether Corporate Governance is effective in Emerging Markets. Literature on Corporate Governance in the emerging markets of Latin America is limited mostly due to the relatively slower development of capital markets and the late adoption of corporate governance principles. Corporate Governance laws, which largely follow Sarbanes Oxley guidelines, were published and implemented in the mid 00's and no research has checked their impact on corporate value in Latin America.

This research reports compromises two empirical projects. The first project focused on the relationship between boards of directors attributes such size and composition, Corporate Governance law and firm value for Colombia. The second project focused on another Corporate Governance variable, CEO Duality and tested whether it has had any impact in Mexico. This second project also studied whether board attributes such as size and composition and Corporate Governance law were related to firm value.

Based on the listed companies from Colombia and Mexico for the years 2001 to 2012 the author found no relationship between board size or composition and firm value. Results from Mexico, where CEO duality is allowed showed that it has no relationship with firm value. These results do not support or contradict either Agency theory or stewardship theory. Results on the impact of the adoption of a Corporate Governance law in firm value are mixed. Results for Colombia contradict previous literature by reporting a positive relationship between Corporate Governance laws and firm results while results from Mexico support previous

research by reporting no relationship between these variables.

This research is valuable for regulators and policy makers in their quest to assess the impact of the adoption of Corporate Governance laws in emerging markets. . Since effective Corporate Governance is important in easier access to financing it is important for shareholders to know which Corporate Governance mechanisms are positively related to firm value. Similarly, it is also important for investors (both foreign and local) in assessing the risk for equity investments in Colombia and Mexico.

Keywords:

CEO Duality, Board Size, Board Composition, Corporate Governance Law, Agency Theory, Stewardship Theory

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List of abbreviations

CU Cranfield University

1 Linking Document

1.1 Introduction

The introduction will discuss the business issue that is the main focus of two economic studies in emerging markets. It also discusses the research questions that arise from the review of relevant literature. The Cranfield DBA consists of three major projects whose findings and contributions are presented here.

1.1.1 Corporate Governance – The effectiveness of Corporate Governance in emerging markets

This research was inspired by the on-going business quest of trying to assess whether corporate governance has any impact on firm value in emerging markets. Literature on this topic has been scarce and was mostly written before the corporate scandals of the late 90's and the early 00's. The Sarbanes – Oxley act (from now on SOX), based on Agency theory, was adopted as a response to those scandals. One of its most important requirements focuses on the structure and composition of the Board of Directors. It set limits for board size and composition. The amount of literature that discusses the impact of SOX is limited. Following SOX, most emerging markets in Latin America published and adopted Corporate Governance regulations in the mid 00's, which provides an interesting context for finding whether either board characteristics or Corporate Governance laws have a positive impact on firm value.

1.1.2 Justification for research

Unlike other developed markets, little research has been done on this topic in the Latin American emerging markets. The author looked initially at Colombia as a subject for his research but later expanded the scope of study to include Mexico since the analytical approach was also applicable for research in Mexico. The justification for selecting these emerging markets for research was based on the following factors present in their economies:

1.1.2.1 Privatizations:

Over the last two decades a fair number of companies have been privatized and subsequently listed in the Colombian Stock Exchange, these companies come from different industries such as telecommunications (ETB- 2006), utilities (ISA - 2002), and oil (Ecopetrol - 2007). Privatization of public sector companies helps economic development by bringing resources to the government, funds to the company and investment alternatives to investors. Good corporate governance practices are very important since their presence give new investors confidence, promoting the liquidity of company stock. Literature on privatization and corporate governance is recent but limited with Dyck (2001) and Chong and Lopez de Silanes (2004) mentioning the importance of corporate governance practices on successful privatizations. Chong and Lopez de Silanes (2004) in their study on privatizations in Mexico found that privatization led to improved performance in firms mostly from productivity gains (64%) with good corporate governance playing an important role in these gains. They believed that good governance leads to easier and better access to capital markets, which means a lower cost of capital

immediately creating higher corporate value. (Dyck, 2001; Chong and Lopez de Silanes, 2004)

1.1.2.2 Reforms to pension funds:

In the early 90's privately owned pension funds came into existence in Colombia (a national government run pension system was created in the mid 60's with poor results). The creation of such funds let people manage their pension plans and promoted an increase in savings by offering tax benefits. It also helped capital markets develop by increasing their liquidity. Pension funds are considered institutional investors and their returns are closely monitored by the Finance Control commission (Superintendencia financiera). Since they manage people's pension money they cannot run the risk of value destruction as the result of an agency problem, for this reason they value corporate governance positively. Since 2001 pension funds are only permitted to invest in companies with good corporate governance practices. Those practices were not defined properly until 2005 with the publication of law 964 of 2005.

Literature on pension fund reforms and corporate governance is scarce and studies for Latin America are even scarcer. Asher (2001) in his study on Pension reform, capital markets, and corporate governance for Malaysia concludes that a pension reform cannot be effective in terms of value creation if it is not accompanied simultaneously by financial and capital markets reforms as well as improved corporate governance. Catalán (2004) in his study on Pension Funds and corporate governance in developing countries mentions that pension fund reforms lead to pro-investor legal reforms but concludes that there is not enough evidence

that these laws are eventually enforced. He also mentions that there is little evidence on the effect that pension funds lead to stock market development and that this can be an interesting research topic. He defines specific areas for future research (he calls them “what we need to know”) such as: - The link between pension funds, ownership structure and performance, - The link between pension funds and stock market development and the role that corporate governance plays in this development. (Asher, 2001; Catalán, 2004)

1.1.2.3 Need to compete globally:

This is very much related to the preceding section in that global competition goes beyond operational variables and more into cost of capital. Both Colombia and Mexico promote foreign investment and consider it an important source of economic development. Since foreign investors behave like institutional investors they also value Corporate Governance positively.

1.1.2.4 Concentration of ownership – presence of large business groups:

In Colombia and Mexico, following the trend from Continental Europe and Asia (Claessens et al, 2000) there is a lot of ownership concentration in the hands of a few families or business groups for both listed and unlisted companies. Gutierrez, Pombo and Taborda (2008) provide evidence on ownership concentration in Colombia and mention that their results are similar to the ones found in continental Europe. They also mention that indirect ownership is present via pyramidal and cross shareholding ownership schemes (pg 22). With this evidence the protection of minority shareholders becomes an important issue for governing bodies. (Claessens et al., 2000, Gutierrez, Pombo and Taborda, 2008).

All of the above mentioned factors support the justification for not only proceeding to a systematic review of the literature but also for empirical research in Colombia and Mexico.

1.1.3 The Study

As mentioned in the introduction, Cranfields DBA consists of three main projects: The systematic review of literature followed by two empirical projects. All three projects are summarized as follows:

1.1.3.1 Systematic Literature Review

The systematic literature review (Project 1) focuses on the ongoing discussion on the effectiveness of Corporate Governance as a mechanism to solve the agency conflict. 105 papers were chosen for deeper analysis. These papers study mainly two topics, the board of directors and its relationship with corporate value, and the impact that governance reforms have on firm value. The vast majority of them are empirical papers, which provide evidence either in favor or against agency theory (Governance reforms such as SOX are based on agency theory). From the review of all papers available the author identified gaps in the literature and proposes the following research questions:

- Are Board of director's size and composition related to firm value in emerging markets?
- Are governance reforms positively related to firm value in emerging markets?

The two empirical projects, using data from two emerging markets in Latin America provide evidence that help the author in answering the research questions.

1.1.3.2 First Empirical Project – Colombia

The first empirical project used information from Colombia (the author's home country). The main reasons for using Colombian information as evidence are the following: First, Colombia merged its three exchanges into one in 2001 and has both been a focus of foreign investment and has had a strong development of institutional investors such as pension funds which value strong corporate governance and second, the Colombian governing body issued and implemented a governance law in 2005 (Law 964). This law, following SOX guidelines issued requirements for both board size and composition, which were part of the research question. Enough information was found and used with data from both before and after the law was issued giving the author a valuable sample. The statistical model (Panel data with a linear regression) used for this project is similar with most papers reviewed.

1.1.3.3 Second Empirical Project – Mexico

The second empirical project can be used both as an independent paper and/or a complement to the first empirical project. It used information from companies listed in the Mexican Stock Exchange for a period of over ten years. Mexico is similar to Colombia in the fact that

both are emerging markets with weak legal systems and weak shareholder protections (La Porta et al., 1999, Klapper and Love, 2003). However Mexico presents new and different elements such as a much bigger economy, bigger companies, more concentrated family ownership and most importantly, CEO duality. Mexico, as Colombia, tried to protect shareholders by establishing new corporate governance reforms, the last of them being “Ley del Mercado de Valores” of 2005. The sample used for this project included data for periods from both before and after the law’s implementation thus validating it as a perfect study target. The same methodology as the one used for Colombia was used in this project.

1.1.4 Findings and Contribution

This subsection presents the findings and contribution from the research. There is a significant contribution to empirical evidence and to knowledge of practice.

1.1.4.1 Findings and empirical contribution

Both Projects 2 and 3 studied the relationship between board attributes such as size and composition, and firm value for the emerging markets of Colombia and Mexico and the relationship between CEO duality and firm value for Mexico (where duality is allowed). Results show that there is no relationship between any of the above mentioned corporate governance variables and firm value for either Colombia or Mexico.

This represents a contribution to empirical evidence since studies of these topics have never been done for this region or for these two countries independently.

This research also studied the relationship between corporate governance reforms (based on SOX) and firm value for these two countries. Results are mixed with Colombia showing a positive relationship while Mexico shows no relationship between corporate governance laws and firm value. As this area of research is still not fully developed these findings are an important contribution to it.

1.1.4.2 Contribution to knowledge of practice

Results from this research are useful to different stakeholders.

Institutional and foreign investors (specifically Private Equity funds) value corporate governance and findings from this research can help them in focusing which board of directors (one corporate governance vehicle) attributes are more or less useful in each country.

Results from this research contradict anecdotal evidence and go beyond the intuition proposed by agency theory in which more monitoring and smaller boards necessarily create value. Results support Renders and Garenmyck (2012) who argue that the severity of the agency conflicts affects the effectiveness of Corporate governance. They suggest that the common principle of “one size fits all” is not applicable for European companies. These results are also important for managers since better corporate governance decreases risk and

thus allows for easier and better financing. It is also important for managers who seek to appoint a board of directors that can create value by focusing on company needs rather than on SOX and local regulations.

The results on Corporate Governance laws and their relationship with firm value are useful to regulators and government in their quest to develop capital markets and to help economies grow by questioning the effectiveness of their laws. With the merger of the Peruvian, Chilean and Colombian exchanges and the future merger with the Mexican Exchange corporate governance regulations and recommendations will become an important issue for market development. Colombia's Stock Exchange is currently considering development of a "Corporate Governance" think tank that will help develop better corporate governance practices.

This represents an important contribution to the knowledge of practice.

1.2 Theoretical Positioning

Agency Theory & Stewardship Theory

This research is from the field of finance, specifically in the subsection of corporate governance.

As found in the systematic review of literature, most finance research on corporate governance is based on Agency theory. Agency Theory is based on the

conflict of interest between managers (agents) and owners (principals). It was first mentioned briefly by Adam Smith in “The wealth of Nations” (1776), initially studied by Berle and Means (1932) and later developed by Jensen and Meckling (1976) who believe that both managers and shareholders are utility maximizers and act accordingly, meaning that if their interests are not aligned, then a principal agent problem arises which can potentially affect a firm’s performance.

Jensen and Meckling (1976) believe that “monitoring and bonding costs” need to be incurred in order to make sure that managers act on behalf of shareholders. They call these costs agency costs and define them as the sum of the monitoring expenditures by the principal, the bonding expenditures (both pecuniary and non pecuniary) by the agent and the residual loss (the welfare lost by the principal due to the misalignment of interests).

Managers try to maximize their own personal welfare and that comes via dividends if they own company stock and/or via management compensation (salary and benefits). With concentrated ownership in the hands of the manager, cash flow rights of ownership are not affected by management’s behavior, however with dispersed ownership managers only have limited cash flow rights of ownership and might look for special benefits (compensation) through decisions that may not create shareholder value. Cash flow rights are one of the important sources of the agency conflict (Jensen, 1986). As cash flow rises, agency costs rise accordingly since managers will have more power by having more financial resources under their control and may be tempted to either take advantage of the situation or even promote growth beyond optimal size (Jensen, 2004).

Since corporate assets are financed by either equity and/or debt, managers use debt to lower financing costs. Acquiring debt also creates agency costs of debt that appear in the form of incentive effects, explained as owner/managers making decisions that bring large payoffs with low probability of success since the cost of failure will be borne by the creditors in highly leveraged firms.

Jensen (2004) based on his initial study and using stock market data defines a new agency cost called “the agency costs of overvalued equity”. Since stock markets place an important value on growth and short-term results, managers looking to succeed are motivated (and eventually paid) to lie and manipulate corporate financial reports. This results in an inappropriate valuation of companies.

La Porta et al. (2000), studied ownership around the world and found that ownership is more concentrated in countries outside the US especially in countries with low shareholder protection. As investors increase their equity positions they are more inclined to look after their investment thus incurring additional agency costs. La Porta et al (2000) Lins (2003), Klapper and Love (2005) mention that as ownership concentration increases then a new agency problem appears, that of misalignment of interest between majority and minority shareholders.

It is important to mention that both Sarbanes Oxley and Latin American governance laws are based on Agency theory and their proposals for board size and composition follow its principles.

Stewardship theory proposes a different view. The word steward goes back to monarchical times where a person serves and represents the monarchy, and thus

is not expected to act as an independent agent with interests different than the ones of the principal. Following this line of thought, managers that act as stewards create value just by representing the principals properly.

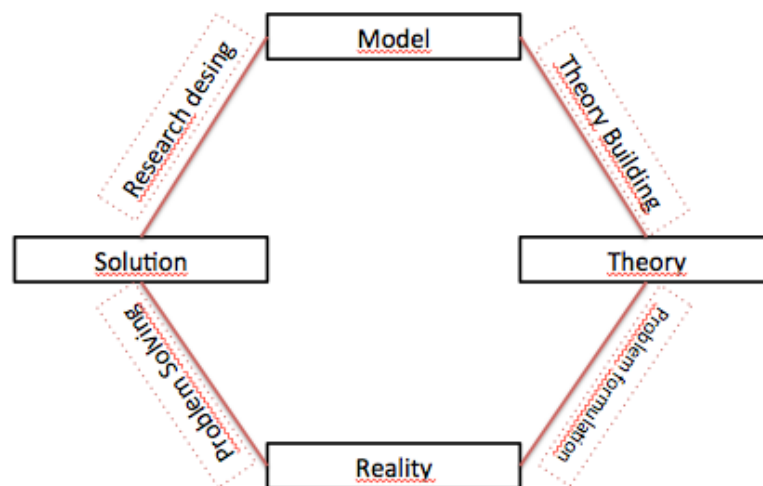
The organizational structure that optimizes “steward type” managers is one where managers have total authority over the company. CEO duality, a common leadership structure found in Mexico is an example of such structure. Agency Theory has a strong argument for no duality while Stewardship Theory supports it.

1.3 Research Process and Methods

This section summarizes the research process and methodology used for the scoping study and the three research projects.

1.3.1 Research Framework

Figure 1



Following Van de Ven (2007) there are four necessary activities to do a research project: problem formulation, theory building, research design and problem solving. The first one consists of taking a research question to reality, theory building develops conceptually a model that develops the problem in a particular context, the third one takes the problem to reality using the conceptual model and finally the problem solving that uses results from empirical solution to solve the question.

This research follows this methodology by defining a research question (problem formulation), by positioning the research within a theoretical framework (theory building), by proposing samples of information as evidence to be tested by using a statistical model (research design) and by providing answers to the research questions (problem solving). Step one was to propose a research question that focused on the relationship between board of directors and firm value and on the impact of governance reforms, both these questions in emerging markets. The second step was the literature review in which through an extensive research a well-developed conceptual framework was established. Projects 2 and 3 brought all this process to reality and to empirical testing in emerging economies such as Colombia and Mexico. In both projects through empirical testing conclusions were made that were the final step to answer the initial problem.

1.3.2 Scoping study

The scoping study plays an important role in Cranfields DBA, its purpose is to make sure that the research issue has been properly identified and that the

systematic review questions are well defined. The end result of the scoping study provided both a clear motivation for research and a systematic review protocol.

The initial review of the literature performed in the scoping study gave the author a deeper knowledge of agency theory and its relation to modern corporate governance, however literature provided mixed evidence on its relationship to firm value providing support for a deeper understanding of this via a systematic review of the literature. In the scoping study questions were asked with only a specific emerging market (Colombia) in mind but questions and issues that arise from it apply to other emerging markets (Mexico).

Through the development of the Systematic review protocol the initial review questions were established: What is the relationship between a board of director's characteristics and firm value in emerging markets? Does theory (and later on evidence) support law on board of director characteristics?

1.3.3 Systematic Literature Review – Project 1

1.3.3.1 Why a systematic literature review

Only through an exhaustive literature review gaps can be found and research questions developed thus making it necessary to any research project. This process allowed the author to properly understand the available literature on the subject.

1.3.3.2 Process and Key Findings

The first step in developing the systematic literature review was to understand which topics were needed. As mentioned in the scoping study three main topics were taken into consideration: firm value, board of director's characteristics and

governance reforms. Research papers that took under consideration at least two of these topics were included in the literature review process.

Following Cranfield's methodology a methodical process was developed, one that included:

- Definition of databases to be searched
- Development of search strings to be used
- Definition of a grading system

The end result of the process was the selection of 105 research papers to be fully reviewed. From all of these papers, information about general characteristics such as country/countries of study, type of document, main topic or its relationship with value were taken into consideration and grouped together to simplify the work.

Some of the papers selected were already studied for the scoping studies but a significant amount were new and were studied carefully. Research and evidence provide mixed results on the relationship between Board of Directors characteristics and firm value, mainly because there is no unique rule of thumb for Board of Directors role in corporate life. The two more studied characteristics of Board of Directors are size and composition, the evidence on both their relationships with firm value is also mixed.

As with literature on Board size and composition, literature on Governance Reforms and their relationship with value is very limited, even for developed economies (literature on SOX and Cadbury act), which again provides an interesting opportunity for research.

1.3.4 First Empirical Study – Project 2

1.3.4.1 Empirical research methodology, philosophy and design

Project 2 used a quantitative statistical methodology. The choice for such a methodology follows most financial research methodology, where regressions are used to find statistical relationships among different variables. The author chose to use linear regressions with Tobins Q, a proxy for value, as the dependent variable with governance variables (board size, percentage of independent directors, governance laws) and some control variables (GDP Growth, sales, stock liquidity and lag of Tobins Q) as independent variables. Since companies were compared with each other among a 10-year period, a panel and year dummy variables were used to check for time varying effects. To check for endogeneity, a common problem in this kind of research, the author ran regressions with dependent variables as independent and vice versa and found no endogeneity among the variables.

Initially only liquid listed companies were included in the data sample for Project 2, but the small number of observations decreased the robustness of the results and all listed companies were included in data simple.

The methodology used is consistent with most of the literature, which provides robustness to the findings.

1.3.4.2 Process and Key findings

In this paper the author studied three main corporate governance issues within the Colombian context, first whether board size has any impact on firm value, second whether more independent boards lead to higher firm value and last

whether the Corporate Governance law, Law 964 of 2005, had a positive impact on firm value. Results show that board size is not significantly related to firm value for Colombia. They also show that board composition is not related to firm value, thus providing evidence to conclude that there is no relationship between board structure variables such as size and composition and firm value for Colombian listed companies. Implementation and adoption of Law 964 of 2005 shows a significant positive relationship with higher firm value.

This paper adds to literature by providing evidence of the relationship of board characteristics and governance reforms on value for an emerging market such as Colombia.

1.3.5 Second Empirical Study – Project 3

1.3.5.1 Empirical research methodology, philosophy and design

Project 3 used the same methodology as Project 2. A new variable was included (CEO Duality) with other governance variables (board size, board composition, governance law, family ownership) as control variables. The data sample for Mexico included more observations for two reasons, there are more listed companies in the Mexican market and observations for one more year were included (more information was available). The same robustness checks that were done for Colombia were also done for Mexico.

1.3.5.2 Process and Key findings

This project studied the effects of CEO duality on firm value in an emerging market focusing on Mexico where CEO duality is allowed. This is important since previous

research on CEO duality's impact on firm value is mixed and inconclusive. Latin American countries such as Colombia, where previous research was conducted support agency theory and do not allow the same individual to be both CEO and Chairman of the board. Since other governance variables such as board independence and size might have an impact on value they were used as control variables in the study.

This research found that CEO duality has no impact on value for Mexico thus showing that different leadership structures do not affect value within an emerging market context such as Mexico.

Most of the governance variables included in this research do not appear to have a definite relationship with value for emerging markets therefore further research on this topic is needed.

Further research can be conducted on different governance variables (such as management ownership, block holder ownership, compensation, board dynamics and specific family characteristics – generation, involvement) and their relationship with value to be able to assess whether governance is really important in emerging markets. These variables were not included in this research and might provide deeper knowledge for academics, investors and regulators.

1.4 Discussion of findings and contributions

This section includes the discussion of the findings and contributions of the three research projects. Table 1 shows the domains and extent of the contribution (as proposed by Cranfield researchers). Section 4.1 presents and discusses both what is already present in the literature and what is missing (gaps in the literature).

Section 4.2 presents the findings and contribution of the research. There are significant contributions to empirical evidence and to knowledge of practice.

1.4.1 Extant Knowledge and Gaps

1.4.1.1 Board Size and Value

Yermack (1996) mentions that as Board size increases value is destroyed due to slower decision making. Mak and Kusnadi (2005), De Andres et al (2005), Gill and Marthur (2011), Ujunwa (2012) and Kumar and Singh (2013) provide supporting evidence for Singapore and Malaysia, OECD countries, Canadian Manufacturing firms, Nigeria and India respectively. Jakling and Johl (2009) provide contradicting evidence while studying Indian top companies. Coles et al (2008) challenge this view and mention that both very small and very large boards have a positive influence on value due to the complexity of businesses. Boone et al (2008) reports that size is not a driver of value but a function of size and that as firm size increases so does its board. This can be explained by the fact that as firms grow they usually diversify and require more support not only for monitoring but also for advising (a new role of Boards not presented in theoretical foundation papers). Raheja (2005) presents a theoretical model that concludes that there is no optimal size since business complexity and firm size differ among companies. This argument challenges Sarbanes-Oxley's recommendation (and Colombian and Mexican law on Corporate Governance) on an ideal board size for corporations (Wintoki, 2007). Literature on the relationship between board size and firm value for the emerging markets of Latin America is nonexistent.

1.4.1.2 Board Composition and value

Literature on Board Composition (characteristics) is more plentiful than literature on board size. There is mixed evidence on board composition and its positive influence on firm value. The logic behind the argument proposed by SOX (a minimum percentage of outsiders) is based upon the hypothesis that outsiders provide better monitoring of management (thus decreasing agency costs) because they are independent. Jackling and Johl (2009) and Giraldez and Hurtado (2014) support this argument for India and Spain. While this may be true it is also true that companies sometimes need more advice, and insiders tend to know more about the business and can provide better insight to the Board. The benefits of this support can offset the agency cost reductions that outside directors may provide. This contradicts SOX recommendations (Wintoki, 2007). Barnard and Rosenstein (1996), Hermalin and Weisenbach (2001), De Andres et al (2005) and Baghat and Black (1998) suggest that Board structure does not show a positive relationship with performance (value), Colombo and Baglioni (2008) provide evidence from Italy on a positive relationship contradicting prior studies. As with Board size it is equally accepted that there is no ideal Board composition. Board structure should be based on corporate reality, especially on the company's priority between advice (more insiders) and monitoring (more outsiders) (Harris and Ravis, 2005; Lehn et al, 2004; Link et al , 2008; Denis and Sarin, 1999). Thus a Board make-up should be based on the quantification of the benefits of advice versus the agency costs of not monitoring. Opportunities for research arise from the fact that this quantification is a very difficult one. A few studies (Dahya et al, 2006) even report that Board of Directors are related to ownership structures providing further

academic evidence regarding the impossibility of a standard size or composition of corporate boards. These studies present an important issue to be taken into account, which is the possible co-linearity between ownership structure and Board of Directors size and composition. No literature was found on Board of Directors composition in Latin America. Both the lack of formal Board size and composition studies found, and the evidence that there is no uniform or standard Board composition support the rationale for conducting research on Corporate Governance in Colombia and/or Mexico.

1.4.1.3 Governance Reforms and value

As mentioned before literature on this topic is scarce due to the fact that current law was adopted less than 20 years ago. Sarbanes Oxley follows agency theory principles, putting emphasis on board size and independence as vehicles to protect shareholders. Evidence shows no positive relationship between Sarbanes Oxley and firm value. Linck et al (2005), Wintoki (2007) and Basu and Dimitrov (2005) found no significant relationship between Corporate Governance reforms and firm value.

As for laws or codes of best practices based on Sarbanes Oxley, Price et al (2011) found no relationship between recommendations (code of best practices) and firm value for Mexico.

There is no research on the relationship between governance laws and value for emerging markets.

1.4.1.4 CEO Duality and value

As with other governance variables, CEO duality literature presents mixed views on the relationship between CEO duality and value. CEO duality is supported by stewardship theory since it argues for a stronger more united leadership where interests are aligned and where advice more than control is needed. Agency theory on the other hand does not support CEO duality because it limits the board's main responsibility of monitoring the CEO. Literature presents mixed evidence on the relationship between CEO duality and firm value. Authors such as Faleye (2007), Chen et al. (2008), Vintila and Gherghina (2012), Braun, Sharma (2007), Raluca (2013) and Chen, Lin and Yi (2008) found no relationship between CEO duality and firm performance/value. Other authors such as Daily and Dalton (1992), Cho and Kim, (2007), Coles, Daniel and Naveen (2008), Kiel and Nicholson (2003), Chen et al (2005) Chanie and Thome, (2009), Ehikoya (2009), lam and Lee (2008), Pok and Sheik, (2012) and Dogan et al. (2013) support agency theory in its assessment of a negative relationship between CEO duality and firm value. Finally, authors such as Agrawal and Knoebler (1996), Peng, Zhang and Li (2007), Yang and Zhao (2014) and Baptista, Klotze and Campelo de Melo (2008) support stewardship theory and find a positive relationship between CEO duality and firm value.

Research on the relationship between CEO Duality and firm value for the emerging markets of Latin America where it is allowed is nonexistent.

1.4.2 Findings and contributions

The contributions of this research address the gaps in the literature mentioned in the prior section. As mentioned before this research provides significant contributions to empirical evidence and to knowledge of practice. The following sections will discuss both the findings and the respected contributions.

1.4.2.1 Findings and Empirical contribution

Projects 2 and 3 provide empirical results to the research questions on the relationship between Board of Directors characteristics such as size and composition, CEO Duality, and Governance laws and firm value for the emerging markets of Colombia and Mexico.

Project 2, which studied the relationship between board size and composition, and governance reforms and value for Colombia provided the following results:

- Board size shows no significant relationship with value. This supports Lehn et al (2009), Boone (2007), Bonn (2004) and Di Pietra (2008) who also found no relationship between Board size and value. It also contradicts agency theory, which recommends a small board.
- Board composition (Independence) shows no relationship to firm value. This result supports Barnard and Rosenstein (1996), Hermalin and Weisbach (2001) , De Andres et al (2005) and Baghat and Black (1998), who in their research on board composition found no significant relationship between board independence and value. This result can probably explained by explanations such as the ones from authors such as Harris and Ravis (2005), Lehn et al (2009) and Dennis and Sarin (1999)

who argue that there is no ideal board composition, as it should be determined by the monitoring and/or advising needs of each company.

- Governance reforms such as Law 964 of 2005 show a positive significant relationship with value. This result contradicts previous literature (Price et al, 2011 and Wintoki, 2007); however when looking at specific components of the law, i.e. board size and independence, results find them not related to firm value.

Project 3 studied the relationship between CEO Duality and firm value for Mexico, a country that allows for the CEO and the Chairman of the board to be the same person. The research for Mexico used board size and independence as control variables. The results are the following:

- Board size as in the case of Colombia (Project 2) shows no significant relationship with value. Boards in Mexico show higher numbers of directors than in Colombia (probably due to the fact that companies in Mexico are bigger), but again no relationship is found between size and firm value. Again, this result supports Lehn et al (2009), Boone (2007), Bonn (2004) and Di Pietra (2008). This result also contradicts agency theory.
- Results on Board composition are similar to the ones found for Colombia. Board composition (Independence) shows no relationship to firm value. These results support Barnard and Rosenstein (1996), Hermalin and Weisbach (2001), De Andres et al (2005) and Baghat and Black (1998).
- Results of the relationship between Governance reforms and firm value for Mexico contradict Project 2 results (from Colombia) by finding no

relationship between reforms and value. They support previous literature (Price et al, 2011 and Wintoki, 2007) by finding no relationship between reforms and value.

- Results on CEO duality show no relationship between the governance variable and firm value for Mexico. This result neither supports nor contradicts Agency theory. Results from Mexico support authors such as Braun, Sharma (2007) and Chen, Lin and Yi (2008), using evidence from largely US family controlled companies, find no relationship between CEO duality and firm performance. Raluca (2013) and Amba (2013) used evidence from Bahrain and Romania and found similar results.

This research study presents new empirical data contributing to the broader study of the relationship between board attributes, governance reforms, CEO Duality and firm value.

The relationships between these concepts were studied in both Colombia and Mexico, two significant emerging markets where these concepts have not previously been studied.

1.4.2.2 Contribution to knowledge of practice

Both empirical projects provide useful information to practitioners on the relationship between board attributes and governance reforms and value for the emerging markets of Latin America. Mexico and Colombia have become the focus of foreign investment over the last few years. For investors a proper knowledge of governance relationship with value is useful in their assessment of investment risk. The findings from this research are also helpful for Colombian pension funds since

they are the largest institutional investor in the country with their investments regulated by law (only AAA risk investments are allowed). Even though these findings support part of the existing literature, the applicability is different since this research is the first of this kind for both countries where stakeholders are different. Results from this research show that conventional wisdom based on agency theory i.e., more monitoring and smaller boards create value is not necessarily applicable in emerging markets and thus managers and investors should focus on corporate reality and needs rather than just following intuition and general recommendations

Governing bodies from both Mexico and Colombia can use the findings from this research in their quest to measure the impact of their regulations, improve regulatory effectiveness, and even question the theoretical foundations of regulations. (There is no relationship between Mexican law and value while there is a relationship between Colombian law and value but it is not related to board attributes). Colombia's exchange has put special emphasis on corporate governance evolution for listed companies (among the MILA region – Peru, Chile and Mexico) in order to develop its capital market. These findings are new to literature and thus can be considered as a contribution to the knowledge currently in practice.

Table 1 – Contribution to knowledge

Domains of contribution	Extent of contribution
Theoretical Knowledge	What has been found which is brand new
Empirical Evidence	<ul style="list-style-type: none"> - Relationship between Board Characteristics (Size, composition and CEO Duality) and firm value for Mexico and Colombia - Impact of Corporate Governance reforms on firm value for the emerging markets of Latin America
Knowledge of practice	<ul style="list-style-type: none"> - Governance Reforms based on Agency theory have had no impact on firm value for the emerging Markets on Latin America. - Board Characteristics such as Size and composition are not related to firm value for Colombia and Mexico - CEO Duality is not related to firm value for Mexico

1.5 Limitations and Opportunities for further research

1.5.1 Limitations

This research focused only on a limited number of governance attributes and their relationship with value within two emerging markets in Latin America. There are limitations worth mentioning:

- Evidence is limited to small markets for a period of 10+ years which represents a limited number of observations
- Only two countries were included for the region leaving countries such as Peru and Chile still to be studied.
- Only board size, composition and CEO duality were included in the study, which left for later study other important governance variables such as: business group ownership, board diversity, board dynamics, etc.

1.5.2 Opportunities for research

As mentioned in the preceding section this research focused on specific governance mechanisms leaving put other important ones to be studied in the future. Regarding boards of directors a few variables may be important to additional research such as board capital, board diversity and board dynamics.

The region shows low levels of equity markets development, which makes banks the biggest providers of capital. With banks bearing this responsibility their role in Corporate Governance becomes an important issue and thus is an additional element to be studied at greater depth (Claessens and Yurtoglu, 2013).

2 Literature review

2.1 Evolution of systematic literature

As mentioned in the research structure and evolution of the research questions in the last chapter, there were changes in the literature review with the development of the empirical projects. The initial approach included two empirical projects that were going to be focused only in Colombia, they sought to analyse the relationship between Corporate Governance variables such as ownership and firm value in the first project and board characteristics and firm value in the second project. After starting to work on the data gathering for the first project the author realized that since ownership data for Colombia was very difficult to gather (large presence of Pyramidal structures, Gutierrez and Pombo, 2006) changes needed to be made, which altered the first empirical project to the relationship between Board Characteristics, Corporate Governance law and firm value for Colombia. The second empirical project also changed, the author decided to do research with Mexican data since Mexico not only allows for a different Corporate Governance variable, CEO Duality but also has data for more companies.

2.2 Introduction

Corporate Governance is an important mechanism in mitigating the agency problem. Its main purpose is to guarantee creditors (in both equity and debt) an adequate return on their investment by making sure that management acts in their best interest. Corporate governance consists of both internal and external

mechanisms. Internal mechanisms such as Board of Directors size and composition play a very important role in mitigating the agency problem; their oversight role of management decreases agency costs thus increasing firm value (Jensen and Meckling, 1976)

Board of Directors are elected to play a monitoring role of management actions. Their responsibilities are mostly to define management compensation, to appoint and dismiss CEO's, to decide on dividend payment policies and mostly to monitor results. Research on Boards of Directors has concentrated on US companies with conflicting results about its impact on firm value.

The Sarbanes Oxley Act "SOX" (2002) was introduced and adopted as a response to the Corporate scandals of the late 90's where the lack of proper Corporate Governance principles played a major role. SOX seeks to guarantee that management actions are subject to board oversight. Committees (with only independent directors from the Board) are created to review policies in key areas as well as decisions that encompass risk to the company. Rules on board characteristics are set such as majority on independent directors, annual elections of directors and limits on stock ownership by directors (SOX 303). It also requested among other things the certification of financial reports by directors (SOX 404) as a way of making sure that financial information accurately shows corporate reality. Clark (2005) reports that SOX proposed interesting changes but left large areas untouched such as the setting of executive compensation, the extraction of private benefits from controlling relationships (called by other authors as tunnelling), corporate governance rules on corporate transactions such

as mergers and acquisitions, empowerment of shareholders (beyond annual elections of directors) and rules on the enforcement of the mechanisms proposed. He also suggests that there are no proven positive impacts on the adoption of SOX by American corporations.

With the major corporate scandals of the mid 2000's involving global corporations, corporate governance became an important topic for most countries with governments adopting some SOX recommendations

2.2.1 Motivation for research

Colombia and Mexico provide interesting contexts for research not only because both have had similar developments in corporate governance regulations but also because their economic and political environment are more stable when compared to other Latin American countries such as Argentina, Peru and Venezuela. The similarity in the way that their corporate governance reforms have adapted to their growing capital markets gives the author a perfect fit for this research.

2.2.2 Colombia's evolution on Corporate Governance

Colombia first included specific Corporate Governance laws in the early 70's through the publication of the Commercial Law "Codigo de comercio" in 1971 (based on French civil law). Its basic Corporate Governance laws of corporations (i.e. not sole properties or partnerships) were focused on both shareholder protection of dividends where at least 50% of profits were to be distributed unless 70% of shareholders represented at shareholders meeting thought differently, and

on boards of directors where yearly elections with electoral quotient methodology were supposed to be held and with families not being allowed to have majorities in boards of non family owned companies.

In 1995 a second Corporate Governance law was published (Law 222) which focused on Directors responsibilities and liabilities (again for all companies not only listed ones). It defined directors as Management, Board members and whoever had a top management role (this was meant to include pyramid ownership corporations present in Colombia). The law created requirements for directors such as:

1. "Acting within the moral standards of a good business man". It defined that directors were responsible for company's failure unless proven differently.
2. Making sure appropriate dividends were not only approved but also distributed.
3. To inform shareholders of possible conflicts of interest
4. Prohibition from using inside information on their behalf.

This law complemented the Commercial Law of 1971 but lacked very important definitions such as what conflict of interest and inside information really meant.

Colombia, like most of the Latin American countries began to work on the proper implementation of Corporate Governance Mechanisms (as safekeeping mechanisms of shareholders interests) looking to promote capital market development. Initial efforts were lead by the OECD in the development of the White Paper on Corporate Governance for Latin America between 2000 and 2002.

The Secretary of Securities in 2001, looking specifically to promote capital market development issued Resolution 275 in 2001 in which Corporate Governance codes were required for companies looking to receive pension fund investments. This new requirement promoted the publication of Corporate Governance codes by listed companies (without specification of quality standards) but did not enforce “better” governance practices.

In 2005, following global corporate scandals the new capital markets law was issued (law 964 of 2005) which complemented both the Commercial Law of 1971 and the corporate governance law of 1995. It also eliminated resolution 275.

The new capital market law contributes to corporate governance in two basic ways:

- Boards of Directors: Number of directors was set between 5 and 10 with at least 25% being independent (this was somewhat copied from SOX) with management being forbidden from being appointed Chairman of the Board. The electoral system became more flexible by offering other options beyond electoral quotient as long as the majority of shareholders decided on it. Proposals submitted by someone representing at least 5% of the company’s shares must be discussed and answered by the Board.
- Information disclosure: Listed companies are required to inform whether they apply good corporate governance practices or not. Also Management is now required to certify the validity of Financial Reports.

As has been mentioned in the preceding paragraphs Colombia's governing bodies have issued three main corporate governance laws in the last forty years with major changes in corporate governance mechanisms such as the Board of Directors. It is worth saying that even though important changes have been made in corporate governance regulations, there are still large differences between Colombia and developed countries such as the UK. Table 2 provides a summary of the key differences between Corporate Governance between Colombia and the UK.

2.2.3 Mexico's evolution of corporate governance

Information on the evolution of corporate governance for Mexico is scarce and few documents can be found that could lead to a proper understanding of this process. Before 1990, Mexico as other Latin American countries had a policy of import substitution that was generated to strengthen up the Mexican industry by protecting it from foreign competition. Following this line of thought the Mexican government restricted foreign ownership to 49% while controlling many companies.

Both Mexico and Colombia have civil law legal environments. As in Colombia, Mexico initially issued the Code of Best Corporate Practices in 1999 (immediately following the LA White Paper). The code included more than 50 recommendations on Corporate Governance with some of them being board size (between 5 and 20), board independence (board should have at least 20% of independent directors) and the creation of different committees (auditing, compensation). Compliance

with the code was voluntary with companies only being required by the regulating agency to inform the level of compliance with the code.

In 2001 the most important stock market law was amended (LEY DEL MERCADO DE VALORES) with no major changes for Corporate Governance with Corporate Governance changes only becoming mandatory for all listed companies in 2006 when the new Stock Market law was issued (LEY DEL MERCADO DE VALORES DE 2006).

Mexican law defines that ownership of more than 10% of corporate stock gives owners the right to appoint a board director, however since high family ownership concentration is common among Mexican listed stocks, boards are usually made up of family members. Mexico also allows CEO Duality meaning that the same person can be both the CEO and the Chairman of the Board of Directors. Literature on this topic has mixed views on whether this creates or destroys value. Mexican law differs from Colombian law in this topic since Colombian Law does not allow for CEO Duality.

Also, Mexican law, contrary to international standards only mentions as board members responsibilities the hiring and dismissal of company employees. Other specific requirements mentioned in the LEY DEL MERCADO DE VALORES are:

1. Board size must have an upper limit of 21 members.
2. The percentage of independent directors on a board should be of at least 25%.

(Article 24) – This should not include company executives or shareholders who are active inside the company, creditors, etc.

Since most governance reforms were implemented after the corporate scandals of late 90's literature on the subject is limited. Sarbanes Oxley has been used as the main guideline for ideal governance both in the US and globally (most reforms were based on Sarbanes Oxley). Sarbanes Oxley is consistent with agency theory principles, putting emphasis on board size and independence as vehicles to protect shareholders against value destruction.

Table 2 Corporate Governance Differences between Colombia, Mexico and the UK

Characteristic	Colombia	Mexico	UK
Laws/ Origin	Commercial Law of 1971, CG Law 222 of 1995 and Capital Market Law 964 of 2005 Origin: French Civil Law	Code of Best Corporate Practices Origin: Latin America White Paper	Cadbury Code of 1992 Origin: Common Law
Capital Market-Listed companies	Less than 100, created 1929	More than 150, created 1933	More than 3000, created 1760

Ownership Concentration	High	High	Low
Shareholder protection	Minority shareholders can write to Board who is supposed to answer (Law 964 of 2005)	They have to claim the invalidity of the decisions taken by the board.	Any shareholder can access board members at anytime
Board Of Directors	<p>Size 5-10, 25% independent (Law 964 of 2005)</p> <p>Legal Rep cannot be chairman of the Board (Law 964 of 2005)</p> <p>Yearly elections no restriction on terms for independent</p>	<p>Board must have an upper limit of 21 members.</p> <p>25% of independent members.</p> <p>CEO duality is</p>	<p>No formal or specific restrictions.</p> <p>Recommendation of having outside independent member</p> <p>No restriction on Chairman of the Board</p>

		allowed. Regulates the activities that the board members must have.	Recommendation on limit of term for independent
Board Committees	Auditing (Law 964 of 2005)	Auditing	Auditing, Nomination and Remuneration
Information disclosure	Certification by Legal Representative of validity of Financial Reports and of control systems (Law 964 of 2005)	Certification of financial reports and must comply to the corporate regulations.	Certification of financial reports and of compliance with code (reasons for not complying with it)

US Regulations, specifically Sarbanes-Oxley Act of 2002 is very similar to Cadbury

2.2.4 Research on Colombia

Limited research has been done on Colombia on the relationship between corporate governance mechanisms such as ownership concentration and board characteristics and value. Gutierrez, Pombo and Taborda (2008) using stock market data found high concentration of ownership in Colombian listed companies. Gutierrez and Pombo (2008) using data from 1996-2004 showed that such levels of concentration affected value negatively due to tunnelling (asset appropriation by a controlling shareholder). They also found that when dispersed ownership was present tunnelling decreased due to “contestability”.

Gutierrez and Pombo’s working paper on corporate governance and valuation (2005) uses data from 1998 to 2002 to show that ownership is related to value but does not offer a clear explanation on the causes; using a Corporate Governance Index as proxy they show that corporate governance practices are positively related to value. Further research on corporate governance and value is needed since major Corporate Governance reforms were issued in 2005. Their work on corporate governance and capital markets (2009) mentions the importance of pension funds in capital market development. In this work they do not challenge nor support their prior findings but only mention corporate governance impact on capital market development. Among their findings they show that, for example, minority shareholders have decreased in manufacturing, electrical and financial listed companies between 2002 and 2007 with only four companies showing participations by minority shareholders of more than 10% (Acerias Paz del Rio –

18,89%, Bancolombia – 29,93%, Banco de Bogotá – 20,13% and ISA with 23,43%). They also mention that Colombia's market capitalization as a percentage of GDP has increased from 3,5% to 59% between 1990 and 2007 with a rate of growth only comparable to Peru's, however Colombia shows the least amount of listed companies among the 6 largest Latin American Countries (96 in 2007). They believe that some unique characteristics present in Colombia account for that: Fiscal regulations being too complex, no unique system for taxation of dividends, regulation of pension funds portfolios being too strict (not allowing for diversification) and no private equity presence in the capital markets.

Over the last few years large state owned companies have been privatized and listed in the Colombian Stock Exchange bringing a new reality to Colombia's capital markets. Dyck (2001) and Chong and Lopez de Silanes (2004) mention the importance of corporate governance practices on successful privatizations. Chong and Lopez de Silanes (2004) in their study on privatizations in Mexico found that privatization led to improved performance in firms mostly from productivity gains due in part to good corporate governance. They believed that good governance leads to easier and better access to capital markets meaning a lower cost of capital and higher shareholder value.

As mentioned previously Private pension funds were created in 1993 prompting a significant growth in Colombia's capital market, since their creation they have grown exponentially and by law are required to invest part of their portfolios in Colombian assets (Social Security reform of 1993). Pension funds are institutional investors and their returns are closely monitored by the Finance Control

Commission (Superintendencia financiera). Since they manage people's pension money they cannot run the risk of value destruction created by agency problems, for this reason they value corporate governance positively. Resolution 275 of 2001 stated that pension funds were only permitted to invest in companies with corporate governance codes with the requirement being changed to having good governance practices by Law 964 of 2005.

It is important to mention that Latin American governments believe in the importance of capital market development via the active participation of institutional investors such as pension funds. In December 2009 a meeting was held in Chile and a White Paper on Strengthening the Role of Institutional Investors in Latin American Corporate Governance was presented. This document recommends that regarding Board of Directors, Institutional Investors should play a more active role in them as in both Chile and Brazil, where pension fund managers are required to participate actively on Boards. This document provides examples of strong government practices and their effect on capital markets such as Brazil "Nuovo Mercado", a different stock market within the Sao Paulo Stock Exchange where the stocks that are traded belong to companies with certified good governance practices.

Aguilera in a chapter of McGee's book on Corporate Governance in Developing Economies (2008) mentions that there is no convergence to the Anglo American Model of corporate governance as Latin American countries develop their own corporate governance systems. She mentions that all countries in Latin America

are usually put erroneously in a single category, when their economic, political and social realities are different.

In her study Aguilera describes the reality of Latin America's largest 5 countries: Brazil, Argentina, Chile, Colombia and Venezuela (she excludes Mexico due to its close connection with the US).

Among differences that she mentions that some important elements affecting the way governance is implemented differ among the above-mentioned countries such as:

- Corruption: Corruption levels vary from a low of 2.3 in CPI (Corruption Perception Index) in Venezuela to a high of 7.3 in Chile (this means that Chile is the least corrupt country) with Colombia being at 3.9.
- Financial sector Development: Private Credit as a percentage of GDP varies from a low of 11% in Venezuela to a high of 61% in Chile with Colombia being at 27% (source Djankov, McLeish and Shleifer 2004)
- Stock Market Development: Market capitalization as a percentage of GDP varies from as low as 5% in Venezuela, to as high as 120% in Chile with Colombia being at 41%.

Aguilera also refers to 2003 data to show there are ownership concentration differences among Latin American countries, with Colombia having the lowest percentage at 44% of stocks owned by the largest shareholder and Argentina having the highest figure at 61%. Regarding Board structure she mentions that

Colombia has the lowest average number of directors per board at 5 while Brazil has the highest average at 8.5.

Given the differences mentioned by both the White Paper on Strengthening the Role of Institutional Investors in Latin American Corporate Governance (2009) and on Aguilera's work (2008) and given the evolution of Corporate Governance laws in Colombia over the last 30 years, research on the relationship between Corporate Governance elements such as Ownership structure and Board of Directors Characteristics and Value is not only interesting, but valuable for academics and regulators by providing evidence of legal reforms and their impact on economic stability and growth, and to investors by providing information that can reduce risk.

2.2.5 Research on Mexico

Studies on corporate governance for Mexico are very scarce. Amongst these studies by LLSV (1999) and Klapper and Love (2003), where authors find that Mexico shows weak shareholder protection and high levels of ownership concentration. Other authors who focus solely on Mexico find similar results (Chong and Lopez de Silanes, 2001). Husted and Serrano (2002) in their study on Corporate Governance on Mexico support these findings and report that not only ownership is concentrated in Mexico but that for example for 95% of the family firms listed in the Mexican Stock Exchange the CEO is a family member. Siegel (2009) mentions that the lack of governance in Mexican companies has limited their access to both external financing and technology. More recent studies on corporate governance for Mexico have focused on the impact of governance

recommendations and guidelines on value. While Manchuga and Teitel (2009) and Price et al (2011) agree on the lack of evidence of a positive impact on value due to the implementation of such recommendations, Chong et al (2009) on the other hand, provide evidence that when companies in Mexico implemented differentiating governance tools effectively, they were able to get lower costs of capital and thus increased their value. Research on Mexico`s listed companies shows both weak shareholder protection due mainly to a weak legal system, and high ownership concentration in founding families as being part of Mexican business culture (LLSV, 1999; Klapper and Love, 2003).

There is no specific research on Corporate Governance laws, board of directors, or CEO duality and their relationship with firm value for Mexico

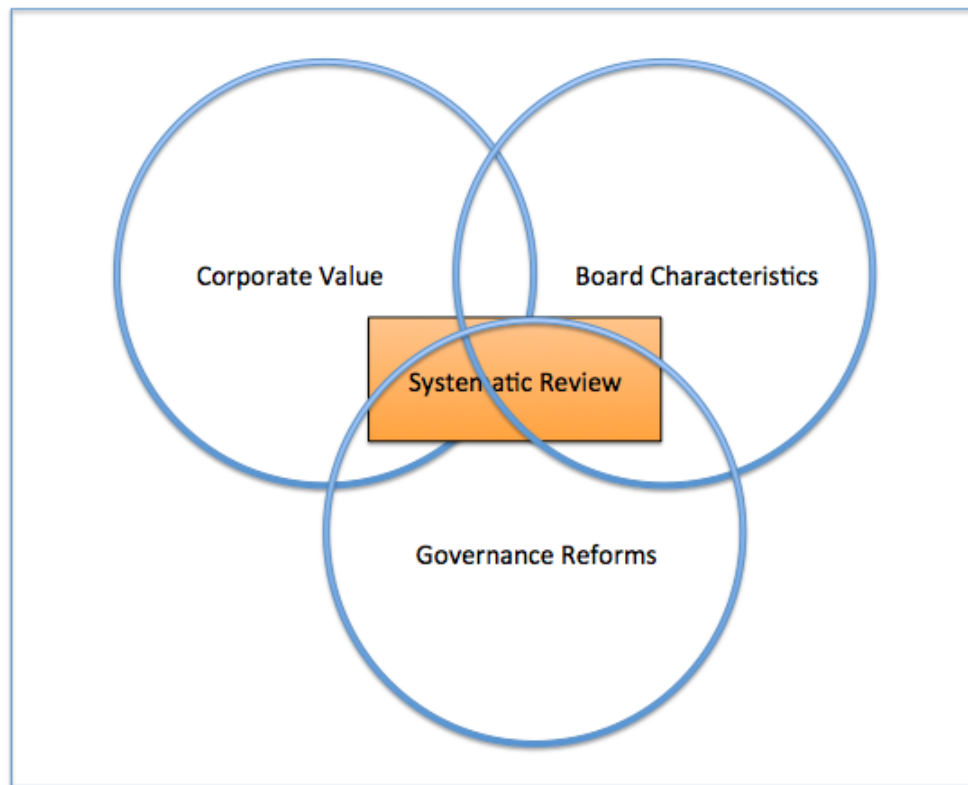
2.3 Mapping the field

2.3.1 Overview

The mapping field presents an adjusted Venn diagram with three elements: corporate value, board characteristics and corporate governance reforms. These adjustments were made so that it addressed specific and relevant issues of research.

This systematic review, as the diagram shows, will aim to look at documents that include either two of the three of identified topics. Research moved from a very broad topic to a more focused area. The study is focusing specifically on corporate governance reforms, boards characteristics and their relationship with firm value for both Mexico and Colombia.

Figure 2 Mapping the field



2.3.2 Theoretical framework

This research uses agency theory and stewardship theories of Corporate Governance as the theoretical foundation

Agency Theory & Stewardship Theory

Agency theory is based on the conflict of interest between managers (agents) and owners (principals). It was first mentioned briefly by Adam Smith in “The wealth of Nations” (1776), initially studied by Berle and Means (1932) and later developed by Jensen and Meckling (1976) who believe that both managers and

shareholders are utility maximizers and act accordingly, meaning that if their interests are not aligned, then a principal agent problem arises which can potentially affect a firm's performance.

Jensen and Meckling (1976) believe that "monitoring and bonding costs" need to be incurred in order to make sure that the managers act on behalf of shareholders. They call these costs agency costs and define them as the sum of the monitoring expenditures by the principal, the bonding expenditures (both pecuniary and non pecuniary) by the agent and the residual loss (the welfare lost by the principal due to the misalignment of interests).

Managers try to maximize their own personal welfare and that comes via dividends if they own company stock and/or via management compensation (salary and benefits). With concentrated ownership in the hands of the manager, cash flow rights of ownership are not affected by management's behaviour, however with dispersed ownership managers only have limited cash flow rights of ownership and might look for special benefits (compensation) through decisions that may not create shareholder value. Cash flow rights are one of the important sources of the agency conflict (Jensen, 1986). As cash flow rises, agency costs rise accordingly since managers will have power by having more resources under their control and may be tempted to promote growth beyond optimal size (Jensen, 2004).

Since corporate assets are financed by either equity and/or debt, managers use debt to lower costs. Acquiring debt also creates agency costs of debt that appear in the form of incentive effects, explained as owner/managers making decisions that

bring large payoffs with low probability of success since the cost of failure will be borne by the creditors) in highly leveraged firms.

Jensen (2004) based on his initial study and using stock market data defines a new agency cost called “the agency costs of overvalued equity”. Since stock markets place an important value on growth and short-term results, managers looking to succeed are motivated (and eventually paid) to lie and manipulate corporate financial reports. This results in an inappropriate valuation of companies.

La Porta et al. (2000), studied ownership around the world and found that ownership is more concentrated in countries outside the US especially in countries with low shareholder protection. As investors increase their equity positions they are more inclined to look after their investment thus incurring additional agency costs. La Porta et al (2000) Lins (2003), Klapper and Love (2005) mention that as ownership concentration increases then a new agency problem appears, that of misalignment of interest between majority and minority shareholders.

Stewardship theory proposes a different view. The word steward goes back to monarchical times where a person serves and represents the monarchy, and thus is not expected to act as independent agent with interests different than the ones of the principal. Following this line of thought, managers that act as stewards create value just by representing the principals properly.

The organizational structure that optimizes “steward type” managers is one where managers have total authority over the company. CEO duality, a common leadership structure found in Mexico is an example of such structure. Agency

Theory has a strong argument for no duality while Stewardship Theory supports it.

2.3.3 Corporate Governance

Corporate Governance has been a major topic of research in corporate finance for over 30 years. Multiple definitions of Corporate Governance have been presented in previous years, all with the same focus, to give “suppliers of finance to corporations an adequate return on their investment” (Shleifer and Vishny, 1997). Reaz and Hossain (2007) see it as a “practice that deals with the concerns that one or more parties involved with organizational decision making may not behave in the best interest of the organization and associated parties” while Monks and Minnow (1995) present it as a mechanism of power and control. On the other hand Cadbury (1992) sees it as a set of relationships between all stakeholders that looks to ensure that objectives are set and attained. One of the best definitions is provided by Denis and McConnell (2003) as they describe it as a set of mechanisms – both institutional and market based- that induce the self interested controllers of a company to make decisions that maximize value to its owners, “the suppliers of capital” (2003).

Corporate Governance can be divided into two different sets of mechanisms, internal and external ones.

2.3.3.1 Internal Corporate Governance Mechanisms

Internal corporate governance mechanisms include board of directors, ownership structure and management compensation since they have an impact on the principal agent relationship.

2.3.3.2 Boards of Directors

Boards of Directors are groups elected by owners that are expected to monitor management and look to maximize value to shareholders by defining executive compensation, by appointing and dismissing CEO's and by deciding on dividend payment policies. While their theoretical value is accepted (Jensen and Meckling, 1976) their practical value has been questioned severely (Shleifer and Vishny, 1997, Denis and McConnell, 2003, Kahna, Kogan and Palepu, 2006, Becht, Jenkinson and Myers, 2005). Research on the effectiveness of the Board of Directors has concentrated on US companies with conflicting results. Research is scarce for emerging economies.

2.3.3.3 External Corporate Governance Mechanisms

The most important external corporate governance mechanisms are the legal system (La Porta et al, 2000; Becht, Jenkinson and Myer, 2005; Denis and McConnell, 2003; Shleifer and Vishny, 1997) and the takeover market (Becht, Jenkinson and Myer, 2005; Denis and McConnell, 2003; Shleifer and Vishny, 1997).

The legal system plays a fundamental role as a mechanism (la Porta et al, 2000) since the laws on shareholder protection and their enforcement play a very big role in the way managers behave on behalf of shareholders interests. As

mentioned before, Klapper and Love (2005), Lins (2003) and LaPorta et al (2000) mention that when these laws are either not present or are not enforced shareholders look for other mechanisms to protect their interests such as ownership concentration.

When managers fail to maximize value after managing corporations inefficiently in a liquid and deep stock market such as the US, corporate value falls well below potential value, creating a gap large enough to bring outsiders as potential investors. Takeover transactions are mostly done at a premium price creating value to original shareholders. Having the threat of a takeover makes managers manage companies more efficiently thus aligning their interests with those of the shareholders. (Denis and McConnell, 2003; Beck, Jenkinson and Myer, 2005).

Internationally, Corporate Governance systems differ depending on economic and legal environments. For example, there is the Anglo-Saxon system, the Germanic system, the Japanese system and the Latin system.

The Anglo-Saxon system is one where by following common law, legal protection of shareholders is stronger. Usually there is only a single board of directors composed of internal and external members. Stock markets are more developed and liquid thus making the takeover market an important mechanism of control (Reaz and Hossain, 2007).

The Germanic system presents more ownership concentration and more involvement by stakeholders (such as employees and banks) other than owners. There are two boards, a management board and a supervisory board, making board dynamics substantially different than in Anglo-Saxon countries. Stock

market liquidity and the presence of a takeover market is less common and creditors such as banks play an important monitoring role; in Germanic countries banks are allowed to own corporate stock.

The Latin System has characteristics of both of the above-mentioned systems, while legal protection of shareholders is not as strong, board dynamics are more closely related to the Anglo-Saxon system. Banks participate in corporate equity (Reaz and Hossain, 2007) in Latin- European countries like in the Germanic system, however there are legal restrictions for this to happen in Latin-American countries such as Colombia.

The Japanese system is based on the interaction of employees and shareholders and these two parties participate in the Board of Directors along with auditors. Banks also play an important role as monitors (by being creditors and owners of equity). Japan's stock market is developed and liquid but there is no takeover market.

This review will show that there is no perfect system and that corporate governance mechanisms need to be adapted to different environments. Corporate Governance research has shown mixed results on the relationship of its different mechanisms to corporate value, with scarce research done for emerging markets. This research, as mentioned before, will focus on the relationship between the Board of Directors, governance laws, CEO duality, family ownership and their relationship to value for Colombia and Mexico

2.3.4 Review Objectives

Objectives & review questions

The main objective of this systematic review is to try to understand what impact do Corporate Governance mechanisms have on corporate value. This review of literature provides the author with the tools to empirically test whether these relationships exist in emerging markets such as Colombia and Mexico. The key research question is: how are Corporate Governance reforms and Board of Directors size and composition related to corporate value in Colombia and Mexico. It is important to properly look at a broader context.

Table 3 questions for systematic review

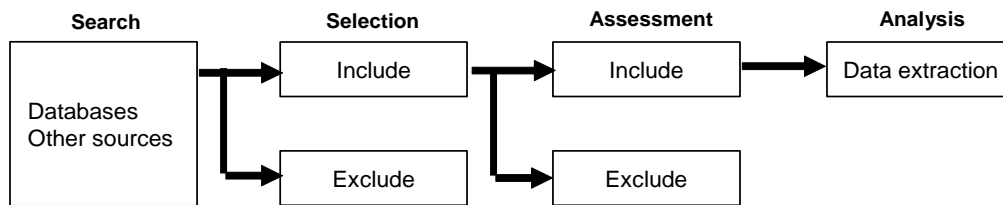
Questions identified for literature examination
<i>Q1: Are governance reforms related to corporate value?</i>
<i>Q2: Are Board of Directors characteristics such as size and composition (independence of board and CEO duality) related to corporate value?</i>

2.4 Methodology

2.4.1 Overview

In this section the author will summarize the methodology used during the Systematic Review process. The figure below presents the steps taken in the process.

Figure 3 Systematic review process



2.4.2 Consultation Panel

The author chose the systematic review consultation panel after finishing the scoping study and presented in November 2008 an initial draft for the systematic review. During 2009 the author added a few experts to the consultation panel. The author invited Augusto Acosta, former CEO of The Colombian Stock Exchange and former President of the Securities Exchange and Banking Regulator (Superintendencia Financiera) and Lorenzo Preve, Finance Professor at IAE Business School. It is important to mention that the Systematic Review panel has not changed and that the author only used the consultation panel for advice.

Table 4 Review Consultation panel

<i>Person</i>	<i>Organization</i>	<i>Role in review and assistance provided</i>
Professor Sunil Poshakwale	Cranfield University	Supervisor: ongoing support and main reviewer of my work
Dr. Vineet Agarwal	Cranfield University	Supervisory panel member: topic expert
Professor Andrew Burke	Cranfield University	Supervisory panel member: research expert
Professor Lorenzo Preve	IAE Business School	Advisor: Research and topic expert
Mr. Augusto Acosta	Murano Consulting	Industry advisor: Topic expert for Latin America and Colombia

2.4.3 Search Strategy

2.4.3.1 Information Sources

The author made an initial literature search for the Scoping Study for framing the subject but felt that it was not rigorous enough to go into the necessary detail needed for the review. The main sources of literature were electronic databases, references given from the review panel, cross-referencing from fundamental

papers and through the identification of key authors. The author used tool bars such as Google Scholar as a complementary element of the review. These lead to search in the following sources of literature:

1. Business and Economics Databases: The author used 3 main databases, Ebsco, Proquest and Science Direct (Google Scholar was helpful in finding just titles). Both Ebsco and Proquest are the most popular and complete databases but sometimes do not carry specific Journals (a few times the author had to look directly into SSRN). Science Direct on the other hand is not as complete but carries both appropriate journals (for the research) and has a better cross-referencing engine. The author used search strings in all three databases and got about 80% of all the literature from them
2. Policy Papers by either Governing Bodies and/or Multilateral Entities: Through the process and guidance of the Systematic review panel meeting, the author decided to look at sources other than the main academic databases and with the recommendation of the panel looked at both the Federal Reserve, the Interamerican Development Bank, the World Bank and the Colombian Chamber of Commerce and Finance Commission for literature finding plenty of different literature. Both the World Bank and the Interamerican Development Bank have done research on Corporate Governance and value. A few very useful papers on Colombia were added to these databases in the last two months of the systematic review.
3. Conference and University working papers: Also with the recommendation of the panel the author looked for working papers and conference papers and

found that over the years Darden Business School has conducted a conference on International Finance having discussed (and still discussing) the relationship between corporate finance and corporate governance

4. Cross-referencing: As an alternative tool the author also looked at the table of references of the papers that were cited the most in the electronic databases and found a good number of papers (specifically unpublished working papers) not cited in the databases.

2.4.3.2 Keywords & search strings

For electronic databases the author used strings that went from the specific to general topic (for example from large shareholders and value.... To board of directors and value...to corporate governance and value) since sometimes topics are put with different names in academic research. See Table 5 for keywords and Table 6 for strings and results. The author also followed some recommendation of the panel for specific papers of a specific author outside of the strings used in the search.

For working papers, policy papers and conference papers the author started the opposite way looking at general topics (Corporate governance) and then looking at more specific ones (board of directors) due to availability. When search strings were not usable/available the author looked at the complete databa

Table 5 Keywords for search

Topic	Key Words / Phrases
Corporate Governance	Corporate Governance Reforms Entrenchment Governance Shareholder Protection
Emerging Markets	Emerging Countries Emerging Markets Emerging economies Developing countries Developing economies
Latin America	Latin America Colombia / Colombian Mexico/Mexican
Boards of Directors Characteristics	Board Size Board Composition Board Structure Board Independence Ownership structure Inside Directors or Monitors Outside Monitors Corporate Boards CEO Duality Family Ownership

Table 6 Search strings

String	Pro Quest	EBSCO	Elsevier
Corporate gov* AND Reforms AND emerging markets AND (Value OR Performance)	52	26	227
Corporate gov* AND (Colombia OR Mexico) AND (Value OR Performance)	140	41	300
Board of directors* AND Value	383	125	352
Board of directors* AND Value AND (Latin America or Emerg*)	44	12	113
Board size AND Value AND Corporate Gov*	342	115	233
Board Comp* AND Board Indep* AND Value	49	19	44
Latin Am* And Ownersh* AND Family Own*AND (Value OR Performance)	17	2	167
Board of* AND CEO dua* AND Performance	33	12	36
Total	1060	352	1472

2.4.4 Selection Criteria

The strategy used of going from the general to the specific yielded a large number of hits as seen in Table 7 The following criteria were used to reduce the number of applicable research literature:

Table 7 Selection criteria for titles & abstracts

Inclusion / exclusion criteria	Rationale
1. Only studies using Agency Theory and Stewardship Theory as the theoretical foundation	Consistency with the focus of my research topic and theoretical foundation
2. Studies from top rated journals (Cranfield's rating – only journals with a 3 or more were taken into account)	Body of literature is vast and top rated journals require academic rigor
3. Transition economies and special situations	Outside the focus of the research
4. Methodology and empirical data	Interested in top academic theory and clarity of empirical data used.

The Cranfield Journal list of selected journals/papers proved to be an efficient tool to select and filter the database of the papers. This list provides a quality appraisal from 1-4 that changes from national publication, internationally recognised, internationally excellent and world leading. This list allowed the author to assess the relevance of each paper by mainly choosing the ones in the top two ranks.

The initial search results based on the search strings used produced 2884 hits across the three databases used. This large number of articles included a large amount of duplications (2296) so the total number of articles collected for the title abstract review was reduced to 588. This title and abstract review removed 476 mostly because they were from journals with a rating lower than 3 (Cranfields rating) (408) or because they included transition economies (39).

Table 7a Search Results

Search Iterations	No
Initial Database results (Proquest 1060, EBSCO 352, Elsevier 1472)	2884
Duplications	(2296)
Subtotal	588
Not using Agency Theory or Stewardship Theory	(29)
Not in Cranfield's Top rated journals	(408)
Transition economies	(39)
FINAL NUMBER REVIEWED	112

The end result after eliminating duplicates led to 112 papers for full text revision.

Evaluation criteria for full text papers:

Conceptual or theoretical papers must contain one or more of the following:

- Hypotheses regarding key attributes or any relationship to Jensen and Meckling (1976).
- Clear Presentation of a theory or a proposed model related to the relationship between corporate governance and value.

Empirical papers must contain at least one or more of the following:

- Well-defined methodology and data sample relevant for research.
- Discussion and analysis of corporate governing mechanisms and their relevance
- A Clear contribution to knowledge.

2.4.5 Quality Appraisal

To be able to really perform a quality appraisal the author needed to develop a few guidelines that are mentioned in table 8 (Holmes, 2006)

Table 8 Quality assessment criteria

<i>Theory</i>	<ol style="list-style-type: none">1. Are papers based on a specific, clearly defined theoretical foundation?2. Are findings related to theory?
<i>Methods</i>	<ol style="list-style-type: none">1. Is the methodology used clearly explained?2. Is explanation given for any sampling and data collection?3. Are limitations in the methodology described?
<i>Analysis & Interpretation</i>	<ol style="list-style-type: none">1. Is the analysis clearly described and thoroughly explained?2. Is the relationship between analysis and interpretation explained clearly?
<i>Coherence</i>	<ol style="list-style-type: none">1. Is there a link between the theory and the analysis?2. Are they explained clearly?3. Are the conclusions related to the initial research question?

The author also classified according to a 0-2 scale each of the papers in four categories. The following table presents the categories and the descriptive criteria of each.

Table 9 Grading System

Concept	Mediocre (0)	Good (1)	Excellent (2)
Theory	No clear theoretical foundation and no relationship between findings and theory	Either clear theoretical foundation or clear relationship between findings and theory	Clear theoretical foundation and clear relationship between findings and theory
Methods	No clear description of methods, data collection and limitations	Clear description of methods and data collection but no description of limitations	Clear description of methods data collection and description of limitations
Analysis and Interpretation	No clear explanations of analysis and findings	Analysis clearly described but no relationship between analysis and interpretation	Clear analysis and clear relationship between analysis and interpretation
Coherence	No clear relationship between conclusion and research question	Clear relationship between conclusion and research question but no clear relationship between theory and analysis	Clear relationship between conclusion and research question and clear relationship between theory and analysis

Papers with a total grade of less than 3 or with two 0's were not included.

2.4.6 Results and Statistics

After conducting the initial search and after doing both the title and abstract appraisal and the full paper appraisal on 112 papers the following were the results

Table 10 Summary of paper review process

Summary statistics on papers reviewed	No
Database/Internet search (After title & Abstract evaluation	112
TOTAL REVIEWED	112
Excluded due to quality concerns	4
Did not meet inclusion criteria	1
Other Factors	2
TOTAL EXCLUDED	7
FINAL NUMBER REVIEWED	105

2.4.7 Data Extraction

The resulting papers included in the review were recorded in both Refworks and in Excel. Data was extracted to Refworks using their platform while it was exported into excel using the framework shown in table 11 below.

Table 11 Data extraction categories

<i>Citation information</i>	<ol style="list-style-type: none">1. Author2. Paper name3. Journal4. Year of publication
<i>Descriptive information</i>	<ol style="list-style-type: none">4. Country5. Main topic discussed (Corporate governance, Board of Directors or both)
<i>Methodological information</i>	<ol style="list-style-type: none">6. Type of study (Theoretical or empirical)7. Data used8. Methodology
<i>Thematic information</i>	<ol style="list-style-type: none">9. Main Findings10. Comments (Basic Quality appraisal)

2.5 Descriptive statistics

2.5.1 Overview

In this section a descriptive analysis of the main findings of the systematic review are presented. This analysis is done by topic, date, location and type.

2.5.2 Topic

The focus of this systematic review was on literature from two main topics (that most of the times are interrelated) and their relationship to firm value and performance: corporate governance, and Board of Directors Characteristics. The results are presented in the following table:

Table 12 Papers by topic

Corporate Governance or board characteristics	
Corporate	22
Boards	63
Both	20

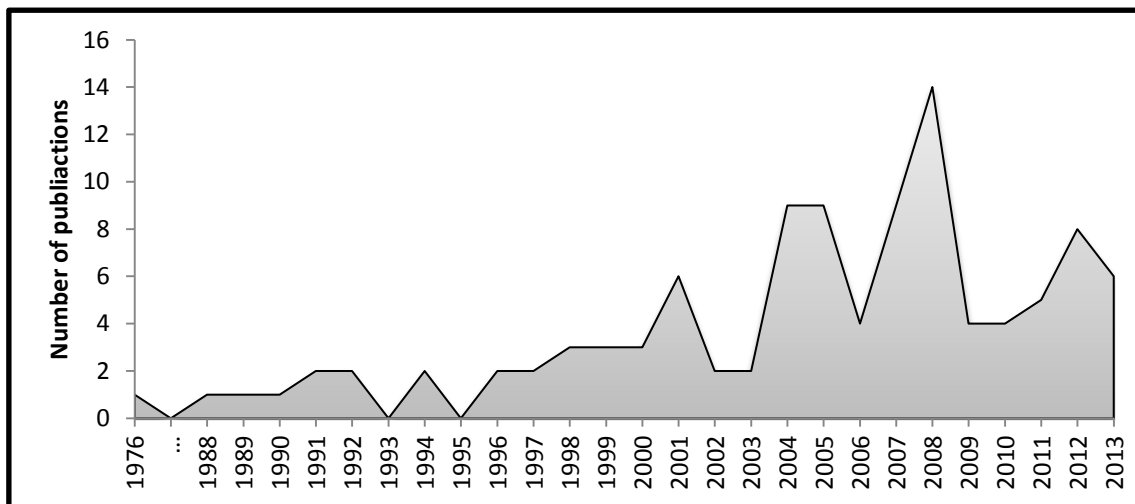
Related to value?	
YES	88
NO	17

Due to the fact that the main topics of this systematic review are interrelated a large number of papers appeared in the “papers with multiple topics”.

2.5.3 Papers by year of publication (date)

In the initial search no restrictions were used as for date of publication, since the paper used as the theoretical foundation was published in 1976 all papers used were published after that initial date. Figure 4 shows this distribution graphically.

Figure 4 Distribution by year of publication



2.5.4 Type of study (theoretical –literature review- empirical)

Most of the literature available in this topic is empirical with the theoretical foundation literature totally theoretical. A few theoretical papers were included due to the clarity of their conclusions and models.

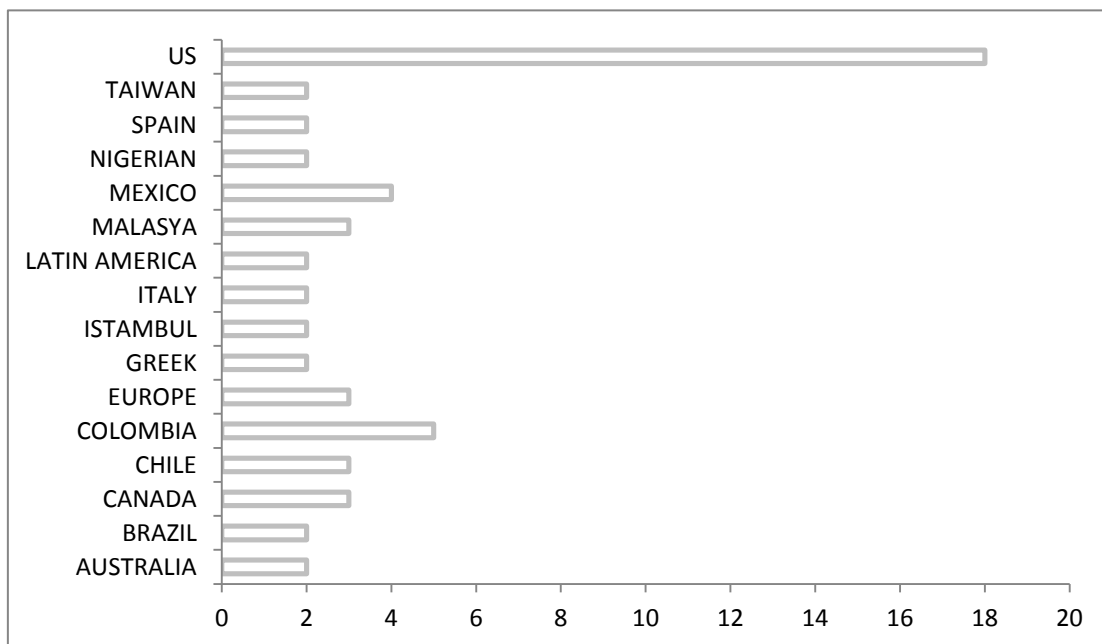
Table 13 Papers by type

Theoretical or empirical?	
Theoretical	10
Literature review	13
Empirical	82

2.5.5 Location

Since the research will be focused on corporate governance in a specific emerging market such as Colombia and Mexico a distribution by Region/country was necessary to determine gaps in literature (different applicability for different countries). The following table shows the regions or countries that had more than one paper. As can be seen in the following table most of the literature is based in the US context.

Figure 5 Papers by location



2.6 Findings and discussion

This section contains a summary of the findings and main discussions that the literature presents in trying to answer the review questions.

2.6.1 Key themes by topic

2.6.1.1 Corporate Governance Reforms and Firm value

The results from the existing studies are scarce. On emerging markets Price et al (2001) found that for Mexico it does not exist any link between this two variables. The author states that even though the regulations implemented were effective in changing practices on Mexican companies there appears to be no significant change on their value.

These results are validated by authors such as Klapper and Love (2003) and LLSV (2000), who argue that is Mexico's reality (high ownership concentration, lack of protection and weak minority shareholder protection) the key factor for this non-relationship.

Other authors such as Linck et al (2005) Wintoki (2007) and Basu and Dimitrov (2005) did similar studies for Sabarnes-Oxley and found similar results.

2.6.1.2 Are Boards of Directors Characteristics such as size and composition related to corporate value?

Boards of Directors play a very important role in corporate governance; they represent shareholders in their quest for wealth maximization. Theory says that they should play an important role in monitoring management. Research and

evidence provide mixed results, mainly because there is no unique rule of thumb for Board of Directors role in corporate life. The two more studied characteristics of Board of Directors are size and composition, the evidence on both their relationships with firm value is also mixed.

2.6.1.3 Board Size

Yermack (1996) mentions that as Board size increases value is destroyed due to slower decision making. Mak and Kusnadi (2005) provide supporting evidence for Singapore and Malaysia. Coles et al (2008) challenge this view and mention that both very small and very large boards have a positive influence on value due to the complexity of businesses. Boone et al (2008) reports that size is not a driver of value but a function of size and that as firm size increases so does its board. This can be explained by the fact that as firms grow they usually diversify and require more support not only for monitoring but also for advising (a new role of Boards not presented in theoretical foundation papers). Raheja (2005) presents a theoretical model that concludes that there is no optimal size since business complexity and firm size differ among companies. This argument challenges Sarbanes-Oxley's recommendation (and Colombian 2005 law on Corporate Governance) on an ideal board size for corporations (Wintoki, 2007)

2.6.1.4 Board Composition

Literature on Board Composition (Characteristics) is more plentiful than literature on size. There is mixed evidence on board composition and its positive influence on firm value. Sarbanes-Oxley, along with NYSE recommends an ideal board composition including an increasing number of outsiders. The logic behind this

argument is based upon the hypothesis that outsiders provide better monitoring of management (thus decreasing agency costs) because they are independent. While this may be true it is also true that companies sometimes need more advice, and insiders tend to know more about the business and can provide better insight to the Board. The benefits of this support can offset the agency cost reductions that outside directors may provide. This contradicts SOX recommendations (Wintoki, 2007).

Barnard and Rosenstein (1996), Hermalin and Weisenbach (2001) and Baghat and Black (1998) suggest that Board Structure does not show a positive relationship with performance (value), Colombo and Baglioni (2008) provide evidence from Italy on a positive relationship contradicting prior studies.

As with Board size it is equally accepted that there is no ideal Board composition. Board structure should be based on corporate reality, especially on the company's priority between advice (more insiders) and monitoring (more outsiders) (Harris and Ravis, 2005; Lehn et al, 2004; Link et al., 2008; Denis and Sarin, 1999). Thus a Board make-up should be based on the quantification of the benefits of advice versus the agency costs of not monitoring. Reality comes in the fact that this quantification is a very difficult one opening up great opportunities for research.

A few studies (Dahya et al, 2006) report that Board of Directors are related to ownership structures providing further academic evidence regarding the impossibility of a standard size or composition of corporate boards. These studies present an important issue to be taken into account, which is the possible co-

linearity between ownership structure and Board of Directors size and composition.

No literature was found on Board of Directors composition in Latin America. Both the lack of formal Board size and composition studies found, and the evidence that there is no uniform or standard Board composition support the rationale for conducting research on Corporate Governance in Colombia or Mexico.

2.6.1.5 Family Ownership

Family ownership and its effect on corporate performance/value have been extensively researched mostly for developed economies with little research for Latin America. Studies have been conducted showing that most companies in most economies are family owned such as the US, the UK, Continental Europe and Emerging markets (La Porta et al, 1999, Klapper and Love, 2004, Anderson and Reeb, 2002, Barontini and Caprio, 2006) with conflicting evidence on the relationship between this major shareholder and value creation. Anderson and Reeb (2003) use S&P 500 data from 1992-1999 to find that Family firms have a higher Tobin's Q and while McConaughy et al (2001) use data from Business week CEO 1000 and find that family firms outperform non family firms in terms of value, capital structure and efficiency. In another study using Spanish data, Gallo and Tapies (2000) find that non-family firms perform better while Barontini and Caprio (2006) using Continental Europe data, find no statistical difference between family and non-family firms in terms of value. Villalonga and Amit (2004) using data from 1994-2000 (fortune 500) found that second generation family

business leaders destroy firm value. These findings give rise to questions such as what is the impact on firm value when the founder is still active in management.

2.7 Synthesis

The Literature review presents some interesting findings in the context of Agency Theory.

As long as there are misalignments in personal interests between owners and managers agency problems will appear since managers tend to act in their own interests, and will probably make decisions that affect corporate value. Various vehicles (which encompass costs called agency costs) for mitigating this “agency problem” have been implemented over the years with mixed results. Two of these most commonly used vehicles are ownership structure and Board of Directors.

Family ownership and institutional investor ownership are two of the most common ownership concentration types with different effects on value. Literature and research show that family ownership can either create alignment between management and ownership, thus creating value or entrenchment and tunnelling thus destroying value depending mostly on which generation controls the company. Again literature shows mixed results.

Boards of Directors are supposed to play an advising and/or a monitoring role of management thus creating value to shareholders. Two of its characteristics i.e. size and composition have been widely researched with mixed results on their relationship with corporate value. While smaller boards are supposed to make decision-making easier and faster (Yermack, 1996) thus creating value, other

studies show no statistical relationship between size and value (Baghat and Black, 2003). Regarding Board compositions relationship to value results are also mixed; companies that focus on R&D tend to create value by having more insiders while other companies that need more monitoring tend to have more outsiders (Rosenstein and Wyatt, 1998, 2001).

Evidence and research in Latin America and more specifically in Colombia and Mexico is very scarce.

2.8 Conclusions

The research papers in the literature review have been questioned in-depth to enable the development of the framework outlined in section six. Board characteristics in emerging markets are not widely studied by literature and with capital moving freely around the globe these corporate governance mechanisms become very important for foreign investors.

As seen in the literature corporate governance works differently in emerging markets where many governments have adopted recommendations such as some from the Sarbanes-Oxley act from developed countries without taking into account their applicability to local environments. Doing research on corporate governance and firm value for a country such as Colombia will help regulators, investors and managers in their quest for stable and efficient economic growth.

Discussed here are the limitations of the literature review and an outline of subsequent empirical research.

2.8.1 Limitations

This literature review's main limitation is the focus on only a few mechanisms of Corporate Governance such as board size and composition.

2.8.2 Further research – Next Steps

As found in this literature review, literature on corporate governance in Latin America is very scarce and evidence of corporate governance mechanisms and their relationship to value in the Colombian or Mexican context is almost non-existent. Further research is necessary to fill this information gap

The thesis comprises two empirical projects, first on the relationship between Board characteristics and Corporate Governance laws with firm value for Colombia and second which examines the relationship between CEO duality and firm value for Mexico. Both projects will use information from databases (from both the Colombian Stock Exchange and Mexican Stock Exchange and Worldscope) from a defined period, specifically the periods before and after the publication of the Corporate Governance law in Colombia (2005) and Mexico (2006).

3 Board Characteristics and firm value: Evidence from Colombia

3.1 Introduction

Corporate governance has been widely studied in literature as a mechanism to address the agency problem. The corporate failures of the late 90's and early 00's questioned the effectiveness of existing corporate governance systems and structures as vehicles for monitoring management. Scandals such as Enron, Worldcom and Parmalat showed the inadequacies of the current Corporate Governance system and since then new Corporate Governance measures have been developed and implemented. The main objective of these initiatives has been to develop strong principles for corporate governance that focus on transparency and proper corporate management. One such initiative was the OECD Principles of Corporate Governance, which was issued in 1999. This was later adopted in 2003 by Corporate Governance institutions in Latin American countries as a model for the development of the White Paper for Corporate Governance for Latin America.

Colombia, one of Latin America's more stable economies, can be regarded as being closely related to the continental European model of corporate governance. However as most Latin American countries, it presents significant differences when compared with Europe i.e. smaller capital markets (La Porta et al, 1999), weaker protection of shareholders due to a weaker legal system (Klapper and Love, 2003, La Porta et al, 1999), and higher ownership concentration (Gutierrez et al, 2006, Gutierrez and Pombo, 2008).

Since 2003 the Colombian Association of Chambers of Commerce “Confecamaras”, the Colombian Stock Exchange “BVC” and the Securities and Banking Commission “Superfinanciera” have taken the role of leaders for corporate governance development in Colombia. Several documents and laws on this topic have been issued and/or enforced over the last decade with the White Book of Corporate Governance (“Libro Blanco de Gobierno Corporativo”) and Law 964 of 2005 being the most prominent ones. Their main focus has been on improving corporate governance practices because it is believed that better governance practices provide better shareholder protection, thus decreasing cost of capital and providing access to external funding which in turn should propel economic development (Chong, 2006).

The board of directors and its effectiveness as a governance mechanism is one of the most widely studied topics in corporate governance literature. Research has focused on board characteristics such as size, composition, diversity, CEO duality and frequency of meetings and their relationship to firm value and/or performance, with size and composition being the aspects most studied.

Literature presents contradicting arguments on the relationship between board characteristics such as board size and composition and firm value. Board size plays an important role in corporate monitoring, while Jensen (1976), Yermack (1996) and Eisenberg et al (1998) and Mak and Kusnadi (2005) argue that as board size increases it becomes less efficient due to slower decision-making. Others such as Wintoki (2005) and Coles et al (2008) mention that size is not related to firm value by arguing that size is dependent on each individual firm’s reality (need of advising or monitoring, size, age, etc.)

On board composition, agency theory literature proposes a larger percentage of independent members since it leads to greater board independence and better monitoring. Literature again presents conflicting evidence, Coles et al (2008) findings contradict this view by reporting that a larger percentage of inside members leads to better business knowledge and thus to better advising, therefore leading to higher firm value. Klapper and Love (2003) and LLSV (2001) argue that such conflicting evidence on board size and composition and their relationship with firm value can be attributed to either each firm's reality and/or legal/macroeconomic environment.

Governance reforms, most of them based on Sarbanes-Oxley Act, have been published and implemented globally over the last decade. There is very little empirical evidence on Sarbanes-Oxley's effectiveness or its impact on firm value (positive results via better shareholder protection) (Wintoki, 2005; Basu and Dimitrov, 2010).

Literature on corporate governance for Colombia is scarce. There is research only on ownership concentration (Gutierrez and Pombo, 2008) and Governance Codes and Surveys (Klapper and Love, 2003; La Porta et al, 1998; Lopes de Silanes and Chong, 2005) with no empirical research on board size and composition.

As mentioned before, research is limited on both governance reforms and their impact on value and corporate governance in Colombia. Sarbanes-Oxley, in its quest to improve governance among companies set certain requirements on governance vehicles such as the board of directors. These requirements were followed and sometimes copied by governing bodies in different countries. The Colombian securities commission (Superintendencia Financiera) issued the

Governance Law (Ley 964) of 2005 in which requirements were set on both board size and composition. The expected results of this law were improvement in governance (shareholder protection), which would help foreign investment to increase thus prompting economic development. This paper adds to literature by providing evidence of the impact of governance reforms (based on Sarbanes Oxley) on firm value with data from Colombia. It also provides evidence of the relationship between board attributes such as size and composition and firm value for an emerging market such as Colombia. This study is valuable for regulators in their quest to assess the impact of governance laws; it is also valuable for investors (both foreign and local) in assessing risk for equity investments in Colombia.

The author examined the relationship between Board attributes such as Board size and composition with firm value (measured using Tobins Q) for Colombia. The author used data for listed companies for the 2001-2013 periods since it included observations from periods before and after the governance law of 2005 thus allowing assessment of the impact of the governance law on firm value. Empirical results for Colombia show no relationship between board attributes and firm value, which among other reasons can be explained by its relatively smaller and illiquid capital market, weak shareholder protection laws and presence of family firms among those observed.

This paper is organized as follows: Section 2 presents a review of published literature, Section 3 explains the hypotheses, Section 4 describes the data and statistics, results are reported in Section 5 and section 6 presents conclusions, explains research limitations and identifies opportunities for further research.

3.2 Literature Review

3.2.1 Colombia's Stock Market Evolution

Colombia's first stock exchange was established in Bogota in 1929. Two other regional exchanges were established in 1963 (Medellin) and in 1981 (Cali). These exchanges provided some liquidity to regional companies and investment opportunities to local investors. A corporate scandal in 1983 that involved Colombia's biggest business group harmed the credibility of stock markets decreasing the number of listed companies from nearly 180 to less than 100 during that decade. A closed, protectionist economic environment was in place between the beginning of the 20th century and 1991 when imports and flow of foreign currencies were strictly controlled.

Colombia changed its economy from a closed protectionist system to an open economy in 1991. This gave domestic investors the ability to invest internationally and foreigner's access to Colombian markets.

In 2001 all three stock exchanges merged together and formed the Colombian Stock Exchange (BVC). Since then the number of listed companies has remained stable at close to 100 but market capitalization and liquidity has increased substantially. Market capitalization is currently close to 300 million USD with about one third of all listed stocks considered as liquid stocks.

When compared to other Latin American stock markets, Colombia has shown promising results, its market size ranks behind only Brazil, Mexico and Chile.

Unfortunately, Colombia like most other Latin American countries shows low levels of capital market development (measured as market capitalization as a % of GDP), which has affected economic development. Klapper and Love (2003), LLSV (1999) and Lopez de Silanes (2003) agree that the main reason for low levels of capital market development in Latin America is due to its weak legal environment where shareholder rights are not well protected.

3.2.2 Colombia's Corporate Governance Evolution

The origins of corporate governance in Colombia can be traced to the legal code of commerce published in 1971. This legal code was based on roman civil law and established the first formal principles of shareholder protection in Colombia. Its two most important articles were on board of directors and dividend distribution.

Regarding the board of directors this code required that boards were elected using an electoral quotient system, meaning that cash flow rights (% ownership) were proportional to board members. This definition took away the possibility of majority shareholders naming the entire board of directors. This code also dealt with dividend distribution requiring that at least 70% ownership had to agree for 100% of profits to be reinvested.

A second Corporate Governance law was introduced in 1995 (Law 222), which dealt primarily with the fiduciary responsibility of corporate directors. It confirmed that directors were legally responsible in cases of shareholder wealth destruction as a result of negligence and fraud. It also set a limit on board memberships in Colombia to five.

In 2001 a third Corporate Governance law was issued, being the first one specifically focused on listed companies. It required that for companies to be listed in the Colombian Stock Exchange they were required to show they had adopted governance codes (this law was abolished with Law 964 of 2005).

Following the large corporate global scandals and also following the Sarbanes-Oxley Act of 2002, a fourth Corporate Governance law was issued and adopted in 2005 (Law 964). It was written specifically for listed companies and defined the board of director's size and composition among other recommendations.

Since 2003 all Latin American governments have met to discuss corporate governance issues, published white papers on it and most of them issued and implemented governance laws. Evidence of the positive impact of these white papers and subsequent laws on corporate governance in these countries is almost non-existent.

It is important to report that all Latin American countries share civil law legal systems, show high levels of ownership concentration, small capital markets, weak legal protection for shareholders and deficient judiciary systems (Aguilera, 2008; Klapper and Love, 2003; La Porta et al, 1998).

As for research on Corporate Governance for Colombia, Gutierrez et al (2008) and Gutierrez and Pombo (2008) both show a high ownership concentration and a relationship between ownership concentration and firm value for Colombia by using data from 1996 to 2004. However there is no evidence of the impact of Colombia's Law 964 of 2005 on firm value.

3.2.3 Board Size and Value

Literature on the relationship between board size and firm value offers mixed findings. Jensen (1983) believes that as board size increases decision-making becomes slower and with free-riding problems, it becomes less efficient leading to lower corporate value. Yermack (1998), Eisenberg et al (1998), Mak and Kusnadi (2005), De Andres et al (2005), Gill and Marthur (2011), Ujunwa (2012) and Kumar and Singh (2013) provide evidence of such argument and find that smaller boards are related to higher firm value. Jakling and Johl (2009) provide contradicting evidence while studying Indian top companies

On the other hand Coles et al (2007) provide evidence that both very large and very small board sizes affect value positively, he believes that this happens due to business complexity. Raheja (2005) supports Coles et al (2007) by suggesting that there is no optimal board size, since board size tends to depend on either advising or monitoring needs and this changes from company to company.

Other researchers such as Lehn et al (2009) in their research of 88 US companies between 1935 and 2000 found no significant relationship between size and value; Boone et al (2007) found a positive relationship between board size and corporate size but found no relationship between board size and firm value.

As mentioned before research in markets other than the US or the UK is very scarce, however some researchers have studied this topic with results showing no relationship between board size and value. Bonn (2004) found no relationship between board size and value for Australia while Di Pietra (2008) had similar findings for Italy.

3.2.4 Board Composition and Value

Literature on board composition and its relationship to firm value is mostly focused on board independence, which is measured as the percentage of independent members. Very limited evidence comes from outside the US and UK, especially from emerging economies.

Sarbanes-Oxley recommends a larger number of independent members so that value can be optimized through better monitoring done by the board. This is supported by the belief that independent directors are less prone to be entrenched or allied with managers, enabling them to perform better monitoring and even better advising (Dalton et al, 1999 Jackling and Johl, 2009 and Giraldez and Hurtado, 2014).

Empirical evidence reported by Weisbach (1988) Brickley et al (1994) and Byrd and Hickman (1992) provide support by showing that under special circumstances boards with a higher proportion of independent members add value to shareholders.

Coles et al (2007) contradict this argument by mentioning that complex companies such as ones with R&D issues need more advising than monitoring and therefore value is created when a larger number of insiders (who provide advice) are present in boards.

Barnard and Rosenstein (1996), Hermalin and Weisenbach (2001) and Baghat and Black (1998) provide evidence on the lack of a positive relationship between board independence and value.

Another line of thought in the literature suggests that there is no single ideal board composition. Researchers argue that composition should be based on corporate reality and the internal need for advising and monitoring should determine the need for independent members. Harris and Ravis (2005), Lehn et al, (2009) and Denis and Sarin (1999) support this hypothesis. If such findings are believed to be accurate then board composition decisions should be made on both the benefits of advising and the costs of monitoring.

As for evidence from a more international context, Bonn (2004) Jackling and Johl (2009) and Giraldez and Hurtado (2014) presents evidence on the positive relationship between the percentage of independent directors and value for Australia, India and Spain respectively

3.2.5 Corporate Governance Reforms and Value

Sarbanes-Oxley Act was published in 2002 as a result of the corporate scandals of the beginning of the 2000's with an aim to ensure better shareholder protection. Large exchanges such as NYSE and LSE made corporate governance recommendations as listing requirements. While NYSE used mainly SOX, LSE took recommendations from the Cadbury Report.

Literature on the impact of Sarbanes-Oxley on governance and value is still scarce with most of the research conducted on board dynamics such as trends in board size and board composition. Findings show that boards are getting more diverse and more independent but presents no compelling evidence with regard to their resulting impact on firm value (Linck et al, 2005; Wintoki, 2007; Basu and Dimitrov, 2005).

Literature is almost non-existent regarding the impact of corporate governance laws on firm value in emerging markets such as Colombia.

3.2.6 Family Ownership and value

Research concerning the effects that family ownership has on value has been growing in the last decade. The studies are mainly on developed markets such as the UK or US but other examples can be found.

Dyer (2006) found that the effects of family ownership are negative on firm's value showing that family managers are hard to monitor and control. This argument is supported by Gallo, Tapias and Cappuyins (2000), Gomez-Mejia, Nuñez-Nickel and Gutierrez (2001), Faccio, Lang and Young (2001) and Hilburt-Davies and Dyer (2003) but not all come to the same conclusion. While Faccio, Lang and Young (2001) and Hilburt-Davies (2003) argue that the negative relationship between family ownership and firm value is obtained when a second generation and not the CEO founder takes control of the firm. Other authors such as Schulze, Lubatkin and Dino (2003) and Matias Gama and Menses Galvao (2010) find that major shareholders (families) are prone to take advantage and expropriate wealth from minor shareholders creating a new agency problem that will lead to a decrease in firm value.

On the other hand Anderson and Reeb (2003) find the opposite relationship and argue that the similarity between the agent and the principal in a family owned company reduces the agency problem through lower monitoring costs. Authors such as Beehr, Drexler and Faulkner (1997), Daily and Dollinger (1992),

McConaughy, Matthews and Fialko (2001) support this argument evidence from different countries.

Colombian listed companies do not present a high family ownership concentration.

Hypothesis Development

3.2.7 Hypothesis No 1 - Board Size

As mentioned before, empirical evidence provides mixed results on the relationship between board size and firm value. Larger boards (determined by the greater amount of members) tend to have slower decision-making, which affects value negatively (Jensen, 1983). Yermack (1996), Mak and Kusnadi (2005), De Andres et al (2005), Gill and Marthur (2011), Ujunwa (2012) and Kumar and Singh (2013) support Jensen (1983) by reporting that smaller boards have lower monitoring costs and show faster decision-making. They present evidence of a positive relationship between smaller boards and firm value by using US, Malaysian, OECD Countries, Canadian manufacturing firms, Nigerian and Indian evidence respectively. On the other hand, Coles et al (2007) report that both very small and very large boards impact value positively due to different corporate business realities. Raheja (2005) supports Coles et al (2007) by stating that there is no optimal board size due to business complexity. Other researchers such as Lehn (2003) and Boone (2007) show no relationship between board size and value.

Research for international markets supports Lehn (2003) and Boone (2007) by showing no significant relationship between board size and firm value. Both Bonn (2004) and DiPietra (2008) present evidence of this for Australia and Italy.

The conflicting evidence on the relationship between Board size and firm value in which there is no apparent agreement within the literature on the nature of such a relationship. This gives rise to three different hypotheses on the relationship between board size and value for Colombia:

H1a – Larger Boards affect value negatively. This hypothesis is supported by Jensen (1976), Yermack (1996), Mak and Kusnadi (2005), De Andres et al (2005), Gill and Marthur (2011), Ujunwa (2012) and Kumar and Singh (2013) who argue that larger boards increase the possibility of having free riding directors and promote slower decision making affecting value negatively.

H1b – Board size has no impact on firm value. Lehn et al (2009), Boone (2007), Bonn (2004) and Di Pietra (2008), who argue that board size is not related to value, support this hypothesis. Bonn (2004) and DiPietra (2008) in their study of Australia and Italy provide international evidence in favour of their argument.

H1c – Larger Boards affect value positively. Coles et al (2007) argue that sometimes, due to different business realities both very large and very small boards affect value positively. The argument of very large boards presented by Coles et al (2007) supports this hypothesis.

The author expects to test which of the preceding three hypotheses is supported with Colombian evidence.

3.2.8 Hypothesis No 2 - Board Composition

Klapper and Love (2003) argue that governance mechanisms are needed in providing shareholder protection in countries where legal shareholder protection is weak. They argue that in these environments better monitoring is needed. Outside directors (independent) are believed to be better monitors of management and thus a larger proportion of them within the board should have a positive impact on firm value. (Jensen, 1983).

Coles et al (2007) contradict the argument that board independence positively impacts firm value specifically in firms where more advising and less monitoring is needed. Others such as Barnard and Rosenstein (1996), Hermalin and Weisbach (2001) and Baghat and Black (1998) in their research on board composition found no significant relationship between board independence and value. Harris and Ravis (2005), Lehn et al (2009) and Dennis and Sarin (1999) argue that there is no ideal board composition, as it should be determined by the monitoring and/or advising needs of each company.

Bonn (2004), Jackling and Johl (2009) and Giraldez and Hurtado (2014) use evidence from Australia, India and Spain and argue for board independence as having a positive impact on value.

The research follows Jensen (1983) and Bonn (2004), Jackling and Johl (2009) and Giraldez and Hurtado (2014) arguments on board independence. The research expects to find a positive relationship between board independence (measured by the percentage of independent directors) and firm value for Colombia.

H2 – There is a positive relationship between board independence (measured by the percentage of independent directors) and firm value for Colombia. Klapper and Love (2003) argue that in a country such as Colombia, with a weak shareholder protection system, better monitoring performed by independent directors is required. This argument supports Jensen and Meckling (1976), Jensen (1983) Jackling and Johl (2009) and Giraldez and Hurtado (2014)

3.2.9 Hypothesis No 3 – Corporate Governance Reforms

Colombian Corporate Governance Law 964 of 2005 sets out the requirements for both board size and composition. According to this Law, boards should have no less than 5 and no more than 10 members with at least 25% of should be independent. This Law provides a detailed definition for board independence.

Literature on the impact of Corporate Governance reforms on firm value is very scarce. Only limited studies try to measure the impact of Sarbanes-Oxley on firm value with no evidence of a positive relationship between adoption of Corporate Governance laws and firm value (Linck et al, 2005; Wintoki, 2007; Basu and Dimitrov, 2005).

In the context of Latin America, Price et al (2011) in their research on Mexican governance codes implementation show that even though more firms comply with the code guidelines, there is no relationship between this code compliance and firm value. An explanation for these results can be the fact that Mexico shows large ownership concentration, lack of protection against insider trading and weak minority shareholder protection (Price et al, 2011, Klapper and Love, 2003, LLSV, 1997,1999, 2000)

H3 – Law 964 of 2005 has no significant relationship with firm value. Since Colombia shows characteristics similar to Mexico, specifically on capital market size, legal environment (civil law), poor law enforcement and weak shareholder protection the author expects the results to support Price et al (2011) by finding that corporate governance reforms or recommendations have no impact on value.

3.3 Data and statistics

The author used data from Colombian listed companies between 2001 and 2013. The reasons behind using data from 2001 to 2013 are: (1) The Colombian Stock Exchange started operating in July 2001 –three regional exchanges operated before, (2) Corporate governance Law 964 was published in 2005 – the data allows the author to examine the impact of Law 964 by using pre-Law 964 and post Law 964 periods (3) given the small number of listed companies (between 80 and 110 in this time period) a larger sample of years provides more observations. To provide more robust findings, models were run with all data included and with two different sets (before Law 964 and after Law 964)

Data were obtained from the following sources:

1. Superintendencia Financiera de Colombia (Securities and Banking Commission – www.superfinciera.gov.co). All information is public and was downloaded using the Superintendencia's web page. Current information on board of director's size and composition was downloaded from this web page.
2. Superintendencia de Sociedades (Companies commission – supersociedades.gov.co). Accounting information such as Assets, Liabilities,

Equity and Net profit were downloaded from this entity's web page and confronted with the Superfinanciera's information for quality purposes.

3. Economática. This source of information was used to obtain the historical accounting information for listed companies.
4. DataStream, Bloomberg and Bolsa de Valores de Colombia (Colombian Stock Exchange). Information on stock prices and trading volume were downloaded from these sources. All three were used since information is not complete in any.
5. Individual company's web pages and annual reports. Historical information on board of directors characteristics was either taken from each individual web page or by making phone calls to their investor relation offices.

Data on the following variables (a description of the variables is presented) was uploaded into Stata where regressions were run:

1. **Tobins Q:** This study uses Tobins Q as a proxy for value and as the dependent variable. It is defined as the relationship between market price and book value of company assets (Equity market value + book value of liabilities/replacement "book" value of assets). Most of the literature uses Tobins Q and it can be considered a valid variable since it focuses on market value and companies included in the sample are only liquid companies.
2. **Board Size:** This independent variable is the key testing the hypothesis No 1. For this study it is defined as the number of board members. The author will use the square of this value in the regression model to test for a nonlinear relationship between board size and firm value. The author expects this variable to show no significant relationship with Tobins Q.

3. **Percentage of Independent Directors:** This independent variable is also fundamental for testing hypothesis No 2. It is defined as the percentage of independent directors within the board (Number of independent Directors/total number of Directors). The author used the definition of Independent Directors provided by Law 964. The author expects this variable to have a positive significant relationship with Tobins Q and thus for its coefficient to be positive.
4. **Law 964/2005:** This independent variable is a dummy variable and it will show whether the observation was from either before (0) or after the implementation of such law (1). This variable will help in testing hypothesis No 3. The author expects no relationship between this variable and Tobins Q.
5. **Family Ownership:** This independent variable is a control dummy variable and it will show whether the company is family owned (1) or not family owned (0). Literature presents mixed evidence on the impact that family ownership has on firm value. Authors such as Anderson and Reeb (2003), Beehr, Drexler and Faulkner (1997), Daily and Dollinger (1992), McConaughy, Matthews and Fialko (2001) argue that due to a decrease in the monitoring costs in the firm that arise from family ownership the relationship between this two must be positive.

On the other side other academics such as Gallo, Tapias and Cappuyins (2000), Gomez-Mejia, Nuñez-Nickel and Gutierrez (2001), Dyer (2003) argue that the relationship is the opposite because a new agency conflict arises.

6. **Log Sales:** The author used this control variable as a proxy for firm size. It is defined as the logarithmical value for the total number of sales for each year. Since the period used in this study (2000-2010) was a period of very low inflation for Colombia (low single digits) no adjustment for inflation is needed. Coles et al (2007) and Yermack (1996) argued that as firm size increases so does the size of the board. Since Colombia has a small stock market the author expects size to be positively related to value.
7. **GDP Growth:** The author used this independent variable to control for the growth that the country is having in its economy. The information from this variable was taken from the World Bank database and shows the growth of GDP in Colombia for this period.
8. **Liquidity Index:** The liquidity index variable takes values from 1 to 5 depending how liquid the company's stock was in that year. The greater the number the greater the liquidity that it will have. The sample only contains variables with values from 3 to 5 and was generated with the information given by the Colombian Stock Exchange information.

3.3.1 Descriptive statistics

Table 14 shows a summary of the descriptive statistics for the variables in the model that included all observations in one dataset. Table 14 shows the T-tests that were generated, having as fixed variable Law 964. This test shows if there is a significant difference between pre and after law periods for each variable. Also the table presents the descriptive statistics for the variables from before and after law respectively.

Average Tobins Q for the complete sample is 1,06 with a standard deviation of 0,63. It varies from a minimum of 0,1 to a maximum of 4,48. It rises from an average of 0,85 for 2001 to 2005 (before the law) to 1,16 for 2006 to 2013 (after the law); this change is statistically significant as the two sample t test with equal variances shows the difference to be statistically significant at $\Pr(T>t)= 0,000$.

Board size shows a similar pattern. From 2001 to 2009 Colombian boards had an average of 5,93 directors with a standard deviation of 1,49. Board size varied from a minimum of 2 to a maximum of 10. Again, as with Tobins Q the difference of the means for Board Size from before and after the law appears is statistically significant, average board size grew from 5,75 (2001 to 2005) to 6.02 (2006 to 2013).

Board independence, measured by the percentage of independent directors shows an average of 41% with a standard deviation of 22%. These results range from a minimum of 0% (no independent directors on the board) to a maximum of 100% (all directors are independent). Average percentage of independents changes from 33% for data prior to 2005 to 45% for data later than 2005. A two sample t test with equal variances shows the difference to be significant at $\Pr(T>t)= 0,0$ It is important to report that 28 observations from 2006 to 2013 are below the mandatory 25% minimum proportion of independent directors required by the law. This finding might imply lack of control by the governing agency responsible for overseeing law implementation.

Family ownership is only present in 23% of the samples having less importance, with 20% in the period before the law implementation, than after with 24%. This difference is insignificant.

Tables also contain the descriptive statistics for the control variables. Log Sales, which was used as a proxy for firm size presents an average of 15.64 with a standard deviation of 4.35, again showing large variability of the sampled data. It goes from an average of 13.23 (2001 to 2005) to an average of 16.83 (2006 to 2013). These results show an important increase (statistically significant) in the size of listed firms, which is consistent with both the growth of the Colombian economy during that period but also the listing of the Colombian oil company (now the largest listed company in Colombia). GDP growth presents an average of 4,49% with a standard deviation of 1,62% it goes from an average of 4,12% to an average of 4,67%. This difference is significant and is consistent with the growth of the Colombian economy.

Liquidity Index was used as a proxy for liquidity and presents an average of 3,78 with a standard deviation of 0.98 This large difference shows that there is an important variability in the liquidity of firms, which confirms the fact that Colombia, as many other countries has a small and illiquid market where companies show different levels of liquidity.

Table 14 Descriptive Statistics

Table 14.1 includes information (number of observations, mean, standard deviation, minimum and maximum) for the complete sample.

Table 14.1. Descriptive Statistics					
	Obs	Mean	SD	Min	Max
TobinsQ	406	1.06	0.63	0.10	4.48
Boardsize	406	5.93	1.49	2.00	10.00
PercIndepDirec	406	0.41	0.22	0.00	1.00
GDPgrowth	406	4.49	1.62	1.65	6.90
LiqIndex	406	3.78	0.98	3.00	5.00
LogSales	406	15.64	4.35	7.32	24.93
FamOwn	406	0.23	0.42	0.00	1.00

Table 14.2 includes information of the difference of mean test for the variable Law in which Mean (0) Information prior to corporate governance implementation and Mean (1): Information after corporate governance implementation.

Table 14.2. Difference of means test (law)					
	Mean (0)	SD	Mean (1)	SD	Pr
TobinsQ	0.85	0.53	1.16	0.66	0.00
Board Size	5.75	1.47	6.02	1.49	0.09
PercIndepDirec	33%	0.20	45%	0.22	0.00
Log Sales	13.23	3.80	16.83	4.11	0.00
Family Own	0.20	0.40	0.24	0.43	0.35
GDP Growth	4.12	1.10	4.67	1.80	0.00
Liq Index	3.66	0.94	3.84	0.99	0.08

Table 14.3 includes information (number of observations, mean, standard deviation, minimum and maximum) for the sample before law implementation.

Table 14.3. Descriptive statistics Before Law					
	Obs	Mean	SD	Min	Max
TobinsQ	134	0.85	0.53	0.10	4.48
Boardsize	134	5.75	1.47	2.00	10.00
PercIndepDirec	134	0.33	0.20	0.00	1.00
GDPgrowth	134	4.12	1.10	1.68	5.33
LiqIndex	134	3.66	0.94	3.00	5.00
LogSales	134	13.23	3.80	7.32	21.70
FamOwn	134	0.20	0.40	0.00	1.00

Table 14.4 includes information (number of observations, mean, standard deviation, minimum and maximum) for the sample after law implementation.

<i>Table 14.4. Descriptive statistics After Law</i>					
	Obs	Mean	SD	Min	Max
TobinsQ	272	1.16	0.66	0.22	4.14
Boardsize	272	6.02	1.49	3.00	10.00
PercIndepDirec	272	0.45	0.22	0.00	1.00
GDPgrowth	272	4.67	1.80	1.65	6.90
LiqIndex	272	3.84	0.99	3.00	5.00
LogSales	272	16.83	4.11	8.71	24.93
FamOwn	272	0.24	0.43	0.00	1.00

3.4 Model

The author looked at different possible models, and decided to use the widely used OLS regression that included analysis of the variables for a company over time. Since most of the literature uses OLS by using this model comparisons can be made among this study and studies from other countries. This was achieved by using the Stata's cluster command that helped compare evolution of variables within the same company between 2001 and 2013). The author also ran regressions without using the dummy variable of Law 964 and compared results on the relationship between board characteristics and value for both 2001-2005 and 2006-2013 periods, these results helped to validate the model and let the author compare basic statistics between those periods.

The equation included not only the variables the author wanted to test (Board size, Board composition, Family Ownership and impact of law 964) but also some control variables used in the literature (size, GDP growth and liquidity). The author also decided to use the panel data set and lagged values of Tobins Q since previous

performance may affect the firm's present performance. Finally the author included dummy variables for each year that will help to control for time effects.

The following model was employed:

$$\begin{aligned} \text{Firm Value (Tobin's Q)} = & \text{Constant} + B0 * \text{Board Size} + B1 * \text{Board independence} \\ & (\text{Percentage of independents}) + B2 * \text{Family Ownership} + B3 * \text{Firm Size} \\ & (\text{LogSales}) + B4 * \text{GDP growth} + B5 * \text{Law 964 implementation (Dummy)} + \\ & B6 * \text{Liquidity Index} + B7 * \text{LagTobinsQ} + B8 * \text{Dummy2001} + \dots + B20 * \text{Dummy 2012} \\ & + \text{error.} \end{aligned}$$

Tobin's Q is the dependant variable as a proxy for value consistent with previous literature (Yermack, 1996, Coles et al, 2007). The four main independent variables mentioned in the three hypotheses were board size, board independence, family ownership and impact of law 964. The author used percentage of independents as a proxy for board independence in the equation. If Board independence, as agency theory suggests affects value positively the author can expect for its regression coefficient to be positive. Law implementation was used as a dummy variable only for the complete sample since two other samples were used, one for observations before the law and another one for observations after the law. As mentioned in hypothesis No 3 the author expects no relationship between this variable and firm value.

As for the control variables the author used firm size, GDP growth, time dummies and liquidity as most of the literature does (Coles et al, 2007, Yermack, 1996). Prior research mentions that as firms grow they have more needs for contracting and thus require larger boards (Coles et al, 2007). The author follows this argument and expects for Log Sales to have a positive relationship with not only

board size but also with value. As for liquidity, the author used it as a control variable due to the fact that in small, imperfect, illiquid markets such as Colombia, liquidity has a direct impact on price. For this reason the author expects liquidity to have a positive relationship with firm value.

The author also ran similar regressions for the samples of before and after the law in which he did not use the laws dummy variable. This allowed getting better, more robust results on the model by allowing the author to compare means and distribution of the variables observed in the two samples.

3.5 Results

Results on the regression showed an R-squared of 0.7654 (a), suggesting that 76,54% of the variations of Tobins Q are explained by the independent variables.

There was no problem of multi-collinearity since the highest correlation is 0,51 (see correlation matrix), which is lower than the maximum acceptable level (0,8) of multi-collinearity (Gujarati, 2004). This provides validity to regression results

Results from running the regression with datasets from before and after Law 964 show results with R-squared changing from 0,5863 (e) to 0,8227 (f). However in both data samples (before and after Law 964) all independent variables (Board Size, family ownership and Proportion of Independents) show no statistical significant relationships with Tobins Q, which means that those variables do not appear to be related to firm value and therefore assessments on the hypotheses can be inferred.

Results show board size to be positively related to value (0,02) but this relationship is not only very small (magnitude of the coefficient) but also not significant. This supports Hypothesis No. 1b by providing evidence of no significant relationship (linear or nonlinear) between Firm Value (Tobins Q) and Board Size for Colombia. Complementary regressions support these results by showing both low and insignificant magnitude coefficients.

Table 15 Correlation Matrix Colombia

Correlation matrix for the complete sample

	Tobins	Boardsiz	PercIndepD	GDPgrowth	LiqInde	LogSale	FamOw
TobinsQ	1.00						
Boardsize	0.05	1.00					
PercIndepDir	0.08	0.09	1.00				
GDPgrowth	0.03	-0.05	-0.07	1.00			
LiqIndex	-0.10	0.03	0.23	0.03	1.00		
LogSales	0.25	0.41	0.51	-0.09	0.14	1.00	
FamOwn	-0.17	-0.13	-0.24	0.04	0.01	-0.24	1.00

Table 16 Regressions

Regressions summary table. Six regressions are show in which (a) is conclusive regression and the other 5 are complementary. (e) and (f) are regressions for years before and after law implementation. While (b), (c) and (d) are without lagged value of Tobin's Q, without year dummy variables and boardsize as dependent. All these regressions are useful to prove the results obtain in column (a).

	(a)	(b)	(c)	(d)	(e)	(f)
	Tobin'sQ	Tobin'sQ	Tobin'sQ	BoardSize	Tobin'sQ	Tobin'sQ
Constant	0.56***	-0.014	0.31***	4.06***	-0.21	-0.3562166
	0.1350138	0.318	0.103	0.9440932	0.31	0.1074708
Boardsize	0.021718	0.044	0.025		-0.0007444	0.0177757
	0.015948	0.051	0.015		0.0344147	0.0164475
%IndepDirec	-0.0811845	-0.011	-0.100	-1.134161	-0.3252103	-0.0153502
	0.1034293	0.322	0.130	0.7536485	0.3206462	0.0813179
Law	0.24***	0.16*	0.047	-0.7583638		
	0.062112	0.096	0.058	0.6933206		
LogSales	0.03*	0.03*	0.011	0.1077337	0.031251	0.03***
	0.0102958	0.017	0.007	0.0948475	0.0198311	0.0099096
Fam Own	-0.0207051	-0.174	0.05*	-0.4553196	-0.035815	-0.0154253
	0.0278966	0.121	0.031	0.348269	0.0807924	0.0303385
GDPgrowt	0.0112497	0.022	0.03***	-0.0298678	0.0482771	0.0085414
	0.0124086	0.015	0.010	0.0363157	0.0293744	0.0132761
LidIndex	0.0184389	0.037	0.024	0.41*	0.013626	-0.0102064
	0.0267762	0.073	0.026	0.1924845	0.0393476	0.0273576
L.Tobin'sQ	0.78***		0.79***	-0.0566923	0.52***	0.82***
	0.080798		0.083	0.2371623	0.1526636	0.0637069
d2003	0.15**			-0.9641669	0.0299779	
	0.0727436			0.6412106	0.0471575	
d2004	0.19**			-0.9070706	(dropped)	
	0.0764538			0.6640234		
d2005	0.28***			-1.014511	0.11***	
	0.0783769			0.6644249	0.0665412	
d2006	0.20*			-0.3456548		
	0.1068028			0.2192396		
d2007	(dropped)			(dropped)		(dropped)
d2008	-0.0019372			0.37*		-0.0086644
	0.0408317			0.1751739		0.0434645
d2009	(dropped)			(dropped)		(dropped)
d2010	0.0373576			-0.5420585		-0.0134082
	0.1005134			0.5974332		0.0866171
d2011	-0.0574083			-0.4763952		0.10***
	0.1066056			0.6525458		0.0923262
d2012	0.32***			-0.4848572		0.38***
	0.0974817			0.6530545		0.1021134
d2013	-0.190489			-0.6534161		0.24***
	0.07***			0.6167512		0.0708569
Tobin'sQ				0.3919089		
				0.2828329		
R2	0.7654	0.1531	0.737	0.2489	0.5863	0.8227
Adj R2	0.7522	0.1382	0.7302	0.2067		
Standard errors below coef (*pr>0.1 - **pr>0.05 - ***pr>0.01)						

Results also show no significant relationship between board composition (percentage of independent directors) and Firm value (Tobins Q) (coefficient at -0.08). This result contradicts Hypothesis No 2, which expected the relationship to be both positive and significant.

Results show a positive significant relationship between Law 964 implementation and Tobins Q (coefficient at 0,24 with 1% significance). This result contradicts previous literature (Price et al, 2011 and Wintoki, 2007) as it shows a positive relationship between Corporate Governance reform and firm value. As reported before the research used law as an aggregate measure of change in Corporate Governance and results show that there is a significant impact in firm value; however when looking at specific components, i.e. board size and independence, results find them not related to firm value.

Family ownership, a control variable showed to be not related to firm value at any level, which indicates that there appears to be no relationship between the fact that a company is family owned and its value.

It is important to report the possibility of reverse causation between firm value (Tobins Q) and board size, meaning that good or bad results might drive shareholders to either change their boards of directors or even appoint more directors for either advise or control. In order to check against reverse causation the author ran two further regressions, one with a lag of one period between board size and Tobins Q and another one with Tobins Q as an independent variable and board size (presented in column d in Table 16) as the dependent variable and

found no significant relationship between these two variables. The results showed no reverse causation, which provides robustness to the results.

Other two regressions in columns b and c were made to show how the final regression was generated. The first of them (b) was made without taking into consideration both the lagged value of the Tobin's Q and the dummy variables. This regression showed a very low R-squared indicating that either the lagged value or the dummy variables were needed. Column c included the lagged value of Tobin's Q but not the year dummy effect (which does not include time varying effects).

3.6 Summary and conclusions

In this paper the author studied three main corporate governance issues within the Colombian context, first whether board size has any impact on firm value, second whether more independent boards lead to higher firm value and last whether the adoption of Corporate Governance law, Law 964 of 2005, had a positive impact on firm value. Results show that board size is not significantly related to firm value for Colombia. They also show that board composition is not related to firm value, thus providing evidence to conclude that there is no relationship between board structure variables such as size and composition and firm value for Colombian listed companies. Implementation and adoption of Law 964 of 2005 shows a significant positive relationship with firm value.

This paper adds to literature by providing evidence of the relationship of board characteristics and governance reforms on value for an emerging market such as

Colombia. This paper is valuable for regulators in their quest to assess the impact of Corporate Governance laws; it is also valuable for investors (both foreign and local) in assessing risk for equity investments in Colombia by showing them that board characteristics are not related to firm value.

Since literature on corporate governance is still limited for emerging markets there are numerous opportunities for research. Aspects of corporate governance deserving further study are variables such as ownership structure, management compensation and other board dynamics. The latter could include board diversity (gender ratios, cultural bias, and mix of professional backgrounds), board capital (defined as the ability of board directors to both monitor and advise companies, Jermias and Gani, 2014), frequency of meetings, and board member age. Greater knowledge of these factors will be valuable in the quest for understanding emerging markets and their drivers for value creation.

4 CEO Duality and Firm Value: Evidence from Mexico

4.1 Introduction

The corporate scandals of the late 90's and the early 00's have given Corporate Governance research and practice increased attention. Regulation (Sarbanes – Oxley and OECD Principles for Corporate Governance) has been developed to improve governance practices worldwide. Most of it has been based on agency theory and focused on defining guidelines for the Board of Directors.

Corporate Governance literature has been focused mainly on UK and US companies with very little research on emerging markets such as Mexico, where regulation and the economic environment are different.

Research on the Board of Directors as a Corporate Governance mechanism is plentiful, however most of the literature on Boards of Directors has focused on Board size and composition. Little research has been done on other board characteristics, most notably the importance of the CEO/Chairman duality.

Agency theory states that independent boards provide better monitoring of management and thus create value. A dual leadership promotes management entrenchment and management behavior (such as appointment of nonqualified board members) that could hamper the effectiveness of monitoring done by the Board. Stewardship theory contradicts agency theory by arguing that duality increases accountability and is less costly.

Stewardship theory presents an interesting contrast to agency theory by studying the conditions in which agents act in the principals best interest rather than on self-

interest (Shillemans, 2012) . Davis et al (1997) suggests that the perspective changes from one of control (agency theory) to one of focusing on the premises under which stewardship works. The word steward to monarchical times where a person serves and represents the monarchy, and thus is not expected to act as independent agent with interests different than the ones of the principal. Shillemans (2012) summarizes various contrasting assumptions between agency theory and stewardship theory by suggesting that stewards are motivated by collective goals (intrinsic motivation, i.e. reputation, realization, acknowledgment) rather by self-interest (extrinsic motivation, i.e financial incentives). He also suggests that agents require more control while stewards are more autonomous.

Stewardship Theory's biggest differences with Agency Theory in the Corporate Governance context lie in both the treatment of CEO Duality and on board independence. Stewardship theory argues for a unified, stronger leadership and a more insider oriented board, where agents are aligned with shareholders and advise is more important than control. Agency Theory, on the other hand argues for no duality and for more independent boards since both these characteristics provide better control and thus better shareholder protection.

Empirical evidence is mixed on the relationship between CEO duality and value, while some authors support agency theory on the negative impact of duality on value others support stewardship theory by arguing for a positive relationship between CEO duality and firm value. There is even evidence of no relationship between CEO duality and firm value.

Daily and Dalton (1992), Cho and Kim, (2007), Coles, Daniel and Naveen (2008), Kiel and Nicholson (2003), Chen et al (2005) Chanie and Thome, (2009), Ehikoya (2009), lam and Lee (2008), Pok and Sheik, (2012) and Dogan et al. (2013) support agency theory by providing evidence of a negative relationship between CEO Duality and firm value; Jermias and Gani (2014) even suggest that board capital (the ability of board directors to both monitor and advise management) mitigates this negative effect . Other authors such as Agrawal and Knoebler (1996), Peng, Zhang and Li (2007), Yang and Zhao (2014), Gill and Marthur (2011) and Baptista, Klotze and Campelo de Melo (2008) support stewardship theory and find a positive relationship between CEO duality and firm value. Basak et al (2013) provide evidence of a positive relationship in the restaurant industry in the US. Randami and van Wittenloostuijn (2010) in their study from Korea, Indonesia, Malaysia and Thailand found CEO Duality to be positively related for average performing firms but not for either high or low performing ones which suggests a non linear relationship between CEO duality and firm value. Another trend in literature remains neutral when referring to this relationship. Abdullah (2004), Braun, Sharma (2007), Faleye (2007), Elsayed (2007) and Chen, Lin and Yi (2008) using evidence from US companies, and Raluca (2013) and Amba (2013) (using evidence from Romania and Bahrain) find that there is no significant relationship between firm's performance and CEO duality.

Research on the impact of Corporate Governance laws on firm value is scarce with research mostly being conducted for the US (Sarbanes-Oxley Act impact on corporate value). Most of the literature agrees on the lack of a positive relationship between governance reforms (SOX) and firm value (Linck et al, 2005; Wintoki,

2007; Basu and Dimitrov, 2005). International evidence is even more limited; Price et al (2011) conducted research on governance recommendations and firm value for Mexico and found no relationship between them. Their research did not include reforms, only recommendations. On the other hand Chong et al (2009) found that better governance (due to compliance with the Code of Better Practices for Mexico) is positively related to performance.

Mexico's business environment has evolved over the last three decades. It has changed from a government-controlled environment (80's) to an open market dominated by private ownership (90's and 00's) (Price et al., 2011). This dramatic change, along with the size of the Mexican consumer market (population of more than 100 million) has attracted large amounts of foreign investment thus increasing the need for corporate governance in companies.

Mexico is the second largest economy in Latin America, just behind Brazil and way ahead of Colombia and Argentina. Its model of Corporate Governance, as with the rest of Latin American countries, is closely related to the Continental European model. However it presents unique features such as a small capital market (La Porta et al , 1999), weak protection of shareholders (La Porta et al, 1999), a weak legal system (Klapper and Love, 2003) and high ownership concentration in founding families (LLSV, 1997,1999,2000).

Literature on Corporate Governance in Mexico is scarce. There is research only in governance as a whole (Husted and Serrano, 2002), governance recommendations and reforms (Machuga and Teitel, 2009 and Price et al, 2011), ownership (Klapper and Love, 2003 and LLSV, 1999). Mexico implemented a new governance law in

2006, which followed Sarbanes-Oxley principles of limiting board size and defining guidelines that promote board independence.

This research complements prior research on Colombia by introducing a new variable, CEO Duality and its relationship to value in an emerging market environment. Duality is not allowed in Colombia but it is allowed in Mexico, which presents an interesting topic for research since literature presents different views on its relationship to firm value.

This paper adds to literature by providing evidence of the impact of CEO duality as a corporate governance variable on firm value with data from Mexico. It also provides evidence of the relationship between board characteristics, family ownership and governance reforms and firm value for an emerging market such as Mexico. This study is valuable for shareholders and directors in Mexico. Through better governance firms should be able to increase their access to external financing, by decreasing risk and lowering their cost of capital, their value increases and they should be able to attract more investors (Claessens and Yurtoglu, 2012) . It is also valuable for regulators in their quest to assess whether governance laws based on the Sarbanes-Oxley Act have a positive impact on value in emerging markets where economic and legal environments are different.

The paper used data of listed companies from the Mexican Stock Exchange for the 2000-2012 period since it allowed the author to have enough observations from before and after the new stock market law of 2006 was adopted, thus enabling assessment of its impact on value. Empirical results showed that there is no

relationship between CEO duality and value after controlling for board characteristics such as size and independence.

This paper is organized as follows: Section 2 presents the literature review, Section 3 explains the hypothesis, Section 4 reviews the research methodology, describing data and statistics, Section 5 presents the results and discusses the findings while Section 6 concludes and explains research limitations

4.2 Literature Review

4.2.1 CEO/Chairman Duality

As reported before, Agency theory and stewardship theory present conflicting views on the impact of CEO duality on firm value. Agency theory argues for board independence as a better mechanism for monitoring management, meaning that by separating these two roles management entrenchment is controlled and boards become more independent and thus create value. On the other hand stewardship theory argues that a unified leadership (CEO and Chairman of the Board being the same person) increases accountability, is less costly and consequently creates value.

Authors such as Braun, Sharma (2007) and Chen, Lin and Yi (2008) using evidence from largely US family controlled companies find no relationship between CEO duality and firm performance. Raluca (2013) and Amba (2013) using evidence from Bahrain and Romania got similar results. Yan Lam and Kam Lee (2007) in their study from Hong Kong found that duality's impact or relationship with performance depends on whether companies are family or non-family owned.

They found CEO duality to have a positive impact on value for non-family firms and non-duality to have a positive impact for family firms. They based their argument on the relationship between the benefits and costs to shareholders in the monitoring of management (non-duality for family firms) and also on the benefits and costs of knowing the business and being able to align all governance structures more efficiently (duality for non-family firms).

Evidence supporting stewardship theory (in which a positive and significant relationship between CEO duality and firm value) could be found for big economies. Peng, Zhang and Li (2007), Yang and Zhao (2010), and Baptista, Klotze and Campelo de Melo (2008) found this relationship to be positive and significant with evidence from China, US, Canada and Brazil respectively.

Evidence supporting agency theory can also be found. Klein, Shapiro and Young (2004) used a sample of 236 Canadian firms and found a positive relation between a non-dual CEO structure and firm value while Pok and Al Sheik (2012) got similar results for the emerging market of Saudi Arabia. No research has been conducted on the relationship between CEO duality and firm value for Mexico.

4.2.2 Corporate Governance and Value in Mexico

Research on corporate governance for Mexico is very limited. Some of it comes from studies on Latin America (LLSV, 1999 and Klapper and Love, 2003), where authors find that Mexico, similar to other Latin American countries, shows weak shareholder protection and high levels of ownership concentration. Other authors who focus solely on Mexico find similar results (Chong and Lopez de Silanes, 2001). More recent studies on corporate governance for Mexico have focused on

the impact of governance recommendations and guidelines on value. Manchuga and Teitel (2009) and Price et al (2011) agree on the lack of evidence of a positive impact on value due to the implementation of such recommendations. Chong et al (2009) provides evidence that when companies in Mexico implemented differentiating governance tools effectively they were able to get lower costs of capital and thus increased their value.

4.2.3 Governance reforms and value

Since most governance reforms were implemented after the corporate scandals of the last fifteen years literature on the subject is limited. Sarbanes Oxley has been used as the main guideline for ideal governance both in the US and globally (most reforms were based on Sarbanes Oxley). Sarbanes Oxley is consistent with agency theory principles, putting emphasis on board size and independence as vehicles to protect shareholders against value destruction. On board composition it sets a minimum of independent board members needed to monitor management effectively. Evidence shows no positive relationship between Sarbanes Oxley and firm value, arguing against agency theory. Authors such as Linck et al (2005), Wintoki (2007) and Basu and Dimitrov (2005) in their research on Sarbanes-Oxley's impact on firm value found no significant relationship between a governance reform and value. Price et al (2011) found no relationship between recommendations (code of best practices) and value for Mexico. They argue that companies comply more with governance guidelines but that this compliance does not impact value positively.

The Mexican government issued a Stock Markets Law (Ley del Mercado de Valores) on December 30, 2005 to be implemented and adopted starting January 1, 2006. This law redefined and regulated the operation of all agents and parties related to the stock market. Among other things it followed OECD Latin American White Paper on Corporate Governance and regulated size and composition of Board of Directors for listed companies. Section I of this law sets clear requirements on the maximum number of board members (21 maximum, no minimum) and on the minimum proportion of independent directors (25% minimum, no maximum) (Article 24). It also sets requirements for the creation of at least two committees (auditing and good practices) to be made up only with independent members and defines what it means to be independent (Article 26). The final two articles of the first section define very clearly the roles and responsibilities of the board of directors of listed companies. It even mentions value creation for all shareholders as a major responsibility.

There is hardly any research on the impact or relationship between governance law and firm value for Mexico.

4.3 Hypothesis development

4.3.1 Hypothesis No 1 – CEO Duality

Literature presents mixed evidence of the CEO duality and its relationship to the firm value. While it is true that some authors such as Klein et al (2004) and Pok and Al Sheik (2012) support agency theory by arguing that CEO duality has a negative relationship with value, other authors get results that support

stewardship theory by finding a positive relationship between duality and value such as Peng, Zhang and Li (2007) in China during their institutional change, Yang and Zhao (2010) through the shock generated by the commerce deal between Canada and the US and Baptista, Klotze and Campelo de Melo (2008) for Brazil. Braun, Sharma (2007) using evidence from large family controlled US companies, Chen, Lin and Yi (2008) for US companies, and Raluca (2013) and Amba (2013) found a non-significant relationship. Yan Lam and Kam Lee (2007) present different findings for Hong Kong, they argue that duality is good for non-family firms while non-duality is good for family firms due to costs and benefits of monitoring and advising.

The lack of agreement in the literature makes it interesting to investigate whether there is a significant relationship between CEO duality and the firm value in Mexico. This generates three hypotheses:

H1 a: There is a positive and significant relationship between CEO duality and the firm value in Mexico.

H1 b: There is no significant relationship between CEO duality and the firm value in Mexico.

H1 c: There is a significant negative relationship between the CEO duality and the firm value in Mexico.

4.4 Data and statistics

This study used data from 101 Mexican listed companies with 914 observations from the period between 2000 and 2013. The reasons behind using this sample are: (1) Corporate Governance Law (ley del Mercado de Valores) was published in 2006 which helps in testing the impact of such law by using pre and post 2006 periods. (2) The advantage of taking such a large sample of years provides more observations and thus providing robustness to the results.

It is important to mention that the study didn't take into consideration the observations from Televisa, one of Mexico's biggest companies, due to very high Tobin's Q values which distorted the sample.

Board data (Duality, Size, Composition) was obtained from individual company's annual reports. All financial figures were obtained from the Mexican Stock Exchange information system and validated from annual reports. Information on the governance law was obtained from the Mexico Stock Exchange webpage.

The following data variables were used in the analysis:

Tobin's Q: Most literature uses Tobin's Q as the dependent variable and as a proxy for value and this study will do so as well. It is defined as the relationship between market price and book value of company assets (Equity market value + book value of liabilities/replacement "book" value of assets). This study also used ROA (Net Profit/ book value of assets – used in the literature as a proxy for performance) as dependent variable to provide robustness to the model.

Duality: This is a dummy variable and can be defined as 1, when CEO and chairman of the board are the same person and 0 when they are not. This independent variable is fundamental in testing Hypothesis 1.

Board Size: This is a control variable, it can be defined as the number of board members.

Percentage of Independent Directors: This is also a control variable. It is defined as the proportion of independent directors within the board (number of independent Directors/total number of Directors). All reports from the data (company annual reports) differentiate independent board members from non-independents by following the OECD recommendations and descriptions from the 2006 Law.

Family Ownership: It is a control variable and a Dummy variable with 1 being all the companies that are considered to be family owned and 0 being all the observations that are not. This study considered that a family owned a company when one family held more than 35% of the shares. The information for this variable was obtained from the annual reports for each company that can be obtained from the Mexican Stock Exchange webpage.

Corporate Governance Law: This is a control variable. It is a dummy variable in the model with 1 being all observations after the publication and implementation of the law and 0 being all observations before the implementation of the law.

GDP Growth: This is a control variable since overall performance by the Mexican economy can have a direct effect in the value of Mexican

companies. The information comes from the database provided by the World Bank.

Log Sales: This study will use this control variable as a proxy for firm size. Coles et al (2007) and Yermack (1996) argued that as firm size increases so does the size of the board. By following this argument results are expected to show sales to be related to board size. A logarithmical value of this variable is used to soften the impact.

Liquidity Index: The liquidity index measures the amount of times that a certain stock of a company is traded within a certain period. The index is generated for the Mexican Stock Market and takes value from 1 to 10, 1 being the minimum value given to stocks with low liquidity and 10 the maximum value given to stocks with high levels of liquidity. This variable helps to control for higher or lower liquidity, which might impact firm value.

4.4.1 Descriptive Statistics

Table 17 shows the summary of the descriptive statistics for the variables in the model. Table 17 presents the difference of means tests that were made for each variable to prove whether there is statistical significance in the difference between groups (before and after law). This will be useful to determine whether board's and firm's characteristics change significantly between periods.

Average Tobin's Q for the period is 1.76 with a standard deviation of 3.21. It varies from a minimum of 0.01 to a maximum of 57.78. It rises from an average of 1.27 for

the period before the implementation of the law to 2.06 for the period after the implementation (Table 17). A two sample t test with equal variances show the difference of 0.79 to be statistically significant at $\Pr(T>t) = 0.0000$. This means that company's value increased after the law was implemented.

CEO Duality presents an average of 0.44 with a standard deviation of 0.50. It has an average value of 0.44 before law implementation and 0.43 after. It can be assumed the small difference that could exist between the two periods is not statically significant with a $\Pr(T>t) = 0.79$. This shows that on average Mexican companies maintained their leadership structures before and after the law.

Table 17 Descriptive Statistics Mexico

Table 17 contains the descriptive statistics for the complete sample.

	Obs	Mean	SD	Min	Max
TobinsQ	914	1.76	3.21	0.01	57.78
Boardsize	914	11.70	3.66	4.00	21.00
PercIndepDirec	914	0.45	0.18	0.11	1.00
Duality	914	0.44	0.50	0.00	1.00
Law	914	0.62	0.49	0.00	1.00
LogSales	914	15.94	1.76	9.21	20.32
FamOwn	914	0.68	0.47	0.00	1.00
GDP growth	914	2.45	2.71	-4.70	5.30
Liq Index	914	5.87	2.19	0.01	9.66

Board size showed an average of 11.7 directors with a standard deviation of 3.66. This variable changed from a minimum of 4 to a maximum of 21 members. The mean grew from 11.61 (2000 to 2006) to 11.76 (2007 to 2013) (See table 18). A two sample t test with equal variances showed the difference of 0.15 which is statistically insignificant

Board independence, measured by the percentage of independent directors showed an average of 0.45 with a standard deviation of 0.18; these results range from a minimum of 11% to a maximum of 100% (Grupo SIMEC between 2003 and 2009 had a board of directors where all directors were independent). The average percentage of independent directors changes from 0.42 for data prior to 2006 to 0.47 for data after 2006. A two sample t test with equal variances showed the difference to be statistically significant at $\Pr(T>t) = 0.00$. This means that the percentage of independents changed significantly between the two above-mentioned periods.

Firm's ownership by a family has a mean of 0.68 in the sample, indicating that 68% of the observations for the companies studied are family owned. This is consistent for emerging economies where markets are small and ownership is concentrated (LLSV, 1998; Klapper and Love, 2003). This result doesn't change much between periods. It has a value of 0.71 before and 0.66 after the implementation of governance regulations. This difference is not significant with a $\Pr(T>t) = 0.10$, meaning that ownership structure did not change during the sample period.

Table 18 Difference of means Test Governance Law Mexico

Table 18 includes information of the difference of mean test for the variable Law in which Mean (0) Information prior to corporate governance implementation and Mean (1): Information after corporate governance implementation.

	Mean (0)	SD	Mean (1)	SD	Pr
TobinsQ	1.27	1.50	2.06	3.87	0.00
Boardsize	11.61	3.67	11.76	3.66	0.55
PercIndepDirec	0.42	0.17	0.47	0.18	0.00
Duality	0.44	0.50	0.43	0.50	0.79
LogSales	15.81	1.69	16.01	1.79	0.08
FamOwn	0.71	0.45	0.66	0.47	0.10
GDP growth	3.09	1.83	2.06	3.06	0.00
Liq Index	6.32	1.98	5.59	2.26	0.00

Tables 17 and 20 also contain the descriptive statistics for the control variables. GDP growth has a mean of 2.45 that changed from 3.09 to 2.06 between periods. This difference, as can be expected by the changes in GDP growth after the financial crisis of 2008, turned out to be significant in the t-test with a $\Pr(T>t)=0.0000$. Log Sales, the proxy variable for firm size, presents an average of 15.94 with a standard deviation of 1.76 going from a minimum value of 9.2 to a maximum of 20.3. It goes from an average of 15.81 (2000 to 2006) to an average of 16.01 (2007 to 2013) (see table 17). A two group t test with equal variances showed the difference to be statistically significant at $\Pr(T>t)=0.08$. These results show an important increase (statistically significant) on the size of listed firms, which is consistent with Mexican economic growth over this period. Finally, the proxy for liquidity, Liq Index, presents an average of 5.87 with a standard deviation of 2.19. It goes from an average of 6.32 (2000-2006) to an average of 5.59 (2007-2013). The difference is significant with a $\Pr(T>t)=0.00$ and can be once again explained by the consequences that arose from the 2008 crisis, in which the stock markets from all over the world lost credibility and trading volumes decreased.

Table 19 Difference of mean test Duality Mexico

Table 18 includes information of the difference of mean test for the variable CEO duality in which Mean (0) Information for companies without CEO duality and Mean (1): Information for companies with CEO duality

	Mean (0)	SD	Mean (1)	SD	Pr
TobinsQ	1.61	2.55	1.95	3.90	0.11
Boardsize	11.32	3.45	12.19	3.87	0.00
PercIndepDirec	0.46	0.18	0.44	0.17	0.20
LogSales	16.03	1.76	15.81	1.74	0.06
FamOwn	0.65	0.48	0.72	0.45	0.04
GDP growth	2.47	2.66	2.43	2.77	0.84
Liq Index	5.99	2.24	5.70	2.11	0.05

Table 19 provides evidence of the differences between companies with different leadership structures (Duality and no duality). This table presents the results of a t-test taking CEO Duality as the fixed variable. My most important variable, Tobin's Q (proxy for value), did not change significantly between groups. It changed from 1.61 to 1.95 respectively having a non significant difference at $\Pr(T>t)=0.11$. This shows that firm value does not change significantly between two different leadership structures.

On the other hand, variables such as board size, log sales, family ownership and liquidity index had different results. For these variables the difference between means was statistically significant. Board size for non-dual companies has an average of 11.32 while board size for dual companies has an average of 12.19; this difference (0.87) is statistically significant which shows that companies with Duality have larger boards. Sales, the proxy for size also present significant differences, while non dual companies show an average of 16.03 dual companies show an average of 15.81 meaning that companies with CEO duality tend to be smaller than non dual ones. Companies without CEO duality tend to be on average less concentrated. Lastly, dual companies show a significantly lower liquidity index (5.70) than non-dual companies (5.99) which means that during the period from 2000 to 2013 dual company stocks were traded less than non dual companies.

4.4.2 Regression Model

This study uses Tobin's Q, as most of the literature does, as the dependent variable and included not only the variable to be tested (Duality) but also some control variables. These control variables commonly found in the literature are board size,

board composition, family ownership, adoption of a Corporate Governance law, GDP growth, size (Log sales) and liquidity index as well as the lagged value of the dependent variable which is expected to be significant because a previous positive and significant Tobin's Q might affect Tobin's Q positively for the next period. The usage of the lagged dependent variable on the right hand side of the equation as an independent variable has been used in the literature (Haniffa and Hudaib, 2006; Klein, 1998 and Weir et al., 2002). Most governance literature argues for either a positive or negative relationship between mechanisms such as board size, board independence, and ownership structure with firm value. Since it is expected for these variables to have a relationship to firm value they will be controlled for to isolate CEO duality's impact on value.

Results for an initial model that did not take into account time varying effects are presented in column (a) in table 21. These results show Corporate Governance law as having a significant positive relationship with firm value. After controlling for time varying effects by including year dummy variables, a final model was developed:

Firm Value (Tobin's Q)

$$\begin{aligned}
 = & \text{Constant} + \beta_0 \text{BoardSize} + \beta_1 \text{PropIndep} \\
 & + \beta_2 \text{CEO duality} + \beta_3 \text{Law} + \beta_4 \text{Log Sales} + \beta_5 \text{Fami Own} \\
 & + \beta_6 \text{GDP growth} + \beta_7 \text{Liqui} + \beta_8 \text{Lag.Tobin's Q} + \beta_9 \text{D2001} \\
 & + \beta_{10} \text{D2002} \dots \beta_{19} \text{D2011} + \beta_{20} \text{D2012} + \text{error}
 \end{aligned}$$

Tobin's Q, a proxy for value, was used as the dependent variable as most of the literature does (Yermack, 1996, Coles et al, 2007, Haniffa and Hudaib, 2006, Amir et al, 2010). Second, the most important variable, CEO duality, is included to test whether the leadership structure affects firm value, while the other important governance control variables are also included. The study used the percentage of independent directors as a proxy for board independence. If board independence, as agency theory suggests, affects value positively it can be expected for its regression coefficient to be positive.

As for the control variables the study uses sales as a proxy for size as most of the literature does (Coles et al, 2007, Yermack, 1996, Ameer et al, 2010). Prior research mentions that as firms grow they have more needs for contracting and thus require larger boards (Coles et al, 2007). The study follows this argument and expects sales to have a positive relationship not only with board size but also with firm value. Finally the regression includes year dummy variables that will allow controlling for the effects that each year's growth could have on Tobin's Q.

4.5 Results

The study checked for the multi-collinearity among the different variables. As can be seen in Table 20 there is no abnormally high correlation between variables thus providing validity to regression results. High correlation (within normal ranges) is present between Tobins Q and lagged Tobins Q (0.6322 - expected since they are the same variable), Sales and Board Size (0.3333 – expected as mentioned before), Liquidity index and Log Sales (0.5848 – expected since bigger companies have higher financing needs and thus tend to be traded more).

Table 20 Correlation Matrix Mexico

Correlation Matrix for the complete sample

	TobinsQ	Boardsize	PercInd	Duality	Law	Fam.Own		LogSales	FamOw
TobinsQ	1								
Boardsize	-0.0596	1							
PercIndepD	0.0577	-0.1665	1						
Duality	0.0536	0.1108	-0.0404	1					
Law	0.117	0.0016	0.1183	-0.014	1				
Fam. Own	-0.0092	0.3333	-0.0756	-0.072	0.02	1			
GDP	0.0725	0.0245	-0.0753	0.0694	0.1	0.2832	1		
Liq Index	-0.0225	-0.0538	0.006	0.0076	-0.2	-0.0535	-0.0187	1	
L.TobinsQ	0.0197	0.2779	0.1192	-0.071	-0.2	0.5969	0.1349	-0.035	1

Results from the original models regression reveal no relationship between any of the governance related variables and firm value except for law implementation. Duality, board size, board independence and family ownership showed no significant relationships at any level while law turned out to be positively and significantly related to firm value, however when controlling for time varying effects (see column h) this positive relationship disappeared.

Results of the regression of the adopted model, presented in column (h) on Table 21 showed an R-Squared of 0.4411, suggesting that 44.11% of the variations of Tobin's Q of the sample are explained by the independent variables.

Duality, the dummy variable for leadership structure was positive (0.145) but not significant therefore leading to the conclusion that in the Mexican case, CEO duality does not have any impact on firm value supporting hypothesis 1b. This shows that the division between CEO and chairman of the board does not have any relevance to the creation of value. Second, results show that there is no linear relationship between Tobin's Q and board size (non-significant coefficient of -0.017). The low

magnitudes and the p-values are conclusive and show that the number of members in the board of directors does not appear to have any impact in firm's value. Third, percentage of independents, the proxy for board independence was positive at 0.062 but again non-significant providing evidence of board independence not being related to value. It is important to report that results on governance variables (CEO duality, board size and board independence) and their relationship with value do not support agency theory which might mean that agency theory is not applicable for emerging markets. Fourth, family ownership, the dummy variable that showed whether the company was family owned or not was also positive but non-significant (coefficient of 0.214). This provides evidence to conclude that family ownership is not an important variable in generating value for Mexican firms. Two of the other control variables, GDP growth and Lagged Tobin's Q, show significant relationships with Tobin's Q. These results provide validity to the model since it can be expected for both of them to be related to value. The GDP growth coefficient is positive with a 0.126 and Lag (1 year) of Tobin's Q 0.649 both having a level of significance of 1%. The liquidity index had a positive but non-significant relationship while Log of Sales was negative but small in magnitude and non-significant.

Table 21 Regressions Mexico

Regressions summary table. Six regressions are shown in which (h) is conclusive regression and the other 8 are complementary. (f) and (g) correspond to regressions using ROA as dependent variable, (i) uses duality as dependent looking for reverse causation. While (a), (b), (c), (d) and (e) are without using year dummy variables, without the lagged value of Tobin's q, using a GDP dummy, using ROA as independent variable and using the lagged value of ROA+1

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Tobin's Q	Tobin's Q	Tobin's Q	Tobin's Q	Tobin's Q	ROA	ROA	Tobin's Q	Duality
Constant	0.069 1.131	2.144 2.795	-0.862 1.151	0.699 1.016	1.487 0.952	-0.565 0.385	-0.328 0.251	0.108 1.114	0.704 0.434
Boardsize	-0.018 0.023	-0.062 0.050	-0.013 0.023	-0.070 0.046	-0.072 0.040	-0.003 0.004	-0.003 0.003	-0.017 0.022	0.02* 0.013
ProIndep	-0.053 0.698	0.494 1.522	-0.009 0.694	0.653 1.544	0.459 1.265	0.062 0.069	0.057 0.048	0.062 0.232	-0.020 0.244
Duality	0.139 0.235	0.390 0.585	0.134 0.231	0.545 0.494	0.471 0.414	0.060 0.046	0.038 0.030	0.145 0.232	
Law	0.52*** 0.128	0.92*** 0.239	0.46*** 0.119	0.86*** 0.210	0.81*** 0.186	-0.025 0.034	-0.022 0.018	-0.182 0.176	-0.026 0.052
LogSales	-0.014 0.082	-0.111 0.207	-0.006 0.081	-0.015 0.084	-0.055 0.084	0.038 0.028	0.023 0.018	-0.010 0.079	-0.032 0.034
Fam Own	0.229 0.195	0.558 0.476	0.220	0.475 0.430	0.374 0.383	-0.033 0.058	-0.024 0.036	0.214 0.188	0.106 0.103
GDPgrowt	0.11*** 0.031	-0.003 0.012		0.005 0.015	0.01*** 0.008	0.003 0.003	0.000 0.001	0.12** 0.036	0.002 0.003
LidIndex	0.040 0.051	0.132 0.108	0.025 0.051	0.142 0.111	0.108 0.120	0.004 0.006	0.002 0.003	0.040 0.048	-0.016 0.024
L.Tobin's Q	0.64*** 0.035		0.65*** 0.033					0.64*** 0.331	0.006 0.007
GDP			1.30*** 0.413						
ROA				-2.559 2.714					
Log ROA+1					2.051 4.976				
L.ROA							0.48*** 0.056		
d2001								0.108 0.102	
d2002								-0.196 0.194	
d2003								(dropped)	
d2004								-0.538 0.181	
d2005								-0.135 0.098	
d2006								-0.109 0.132	
d2007								0.499 0.254	
d2008								2.094 0.840	
d2009								(dropped)	
d2010								(dropped)	
d2011								-0.025 0.095	
d2012								0.507 0.257	
d2013								0.542 0.197	
Tobin's Q									0.005 0.007
R2	0.4107	0.0336	0.418	0.0947	0.0526	0.0498	0.2788	0.4411	0.0436
Adj R2	0.406	0.029	0.412				0.266	0.435	

Standard errors below coef (*pr>0.1 - **pr>0.05 - ***pr>0.01)

4.5.1 Robustness tests

Different regressions were run to test for robustness. Table 21 summarizes all the complementary regressions that were made from columns (b) to (g). Regression (b) eliminates Lag Tobin's Q coefficient and thus leading to a decrease in the R-squared of near 35%. Regression (c) takes as control variable of GDP growth a dummy variable that takes the value of one when GDP growth is over zero and zero if not, this shows very similar results as the ones presented in the first column. The next two regressions (d-e) take ROA or the logarithmic value of ROA+1 as independent variables leading to a low R-squared. Regressions on columns (f) and (g) changed the dependent variable, with ROA replacing Tobin's Q in the equation. Under these scenarios not a single variable is significant thus giving validity to the model.

It is important to mention the possibility of reverse causation between firm value (Tobin's Q) and duality, meaning that good or bad results might drive shareholders to either change the leadership structure of the company. In order to check against reverse causation a complementary regression was run with Tobin's Q as an independent variable and duality as the dependent variable (column (i) of Table 21) and no significant relationship was found between these variables.

4.6 Conclusions

This paper studied the effects of CEO duality on firm value in an emerging market focusing on Mexico. This is important since previous research on CEO duality's impact in firm value is mixed and inconclusive. Latin American countries such as Colombia, where previous research was conducted support agency theory and do not allow the same individual to be both CEO and Chairman of the board. Since other governance variables such as board independence and size might have an impact on value they were used as control variables in the study.

This research found that CEO duality has no impact on value for Mexico thus showing that different leadership structures do not affect value within an emerging market context such as Mexico.

Most of the governance variables included in this research do not appear to have a definite relationship with value for emerging markets therefore further research on this topic is needed..

Further research can be conducted on different governance variables (such as management ownership, block holder ownership, compensation, board dynamics and specific family characteristics – generation, involvement) and their relationship with value to be able to assess whether governance is really important in emerging markets. These variables were not included in this research and might provide deeper knowledge for academics, investors and regulators.

5 Conclusions, Limitations and Opportunities for further research

5.1 Conclusions

Effective Corporate Governance plays an important role in companies in the emerging markets by providing easier access to financing, by lowering the cost of capital, by reducing the risk of financial crisis and by creating wealth (Claessens and Yurtoglu, 2012). To find whether it is effective in different economies requires vast research. This thesis provides evidence of the relationship between Corporate Governance mechanisms such as board size and composition with firm value for Colombia and Mexico. It provides evidence of the relationship between the adoption of Corporate Governance Laws and firm value for the same countries. It also provides evidence of the relationship between CEO Duality and firm value for Mexico where CEO duality is permitted.

Results from Colombia and Mexico show no relationship between board size and composition and firm value. Findings for Colombia and Mexico support Lehn et al. (2009) and Boone et al. (2007) who found no relationship between board size and firm value. They also support Barnard and Rosenstein (1998), Hermalin and Weisenbach (2001), De Andres et al (2005) and Baghat and Black (1998) who also found no significant relationship between independence and firm value.

CEO duality, which is only allowed in Mexico, shows no significant relationship with firm value. This indicates that the leadership structure of Mexican companies does not affect its value. Findings from this research support authors such as Faleye (2007), Chen et al. (2008), Vintila and Gherghina (2012), Braun, Sharma

(2007), Raluca (2013) and Chen, Lin and Yi (2008) who found no relationship between CEO duality and firm value.

Previous Literature reports no relationship between the adoption of the Corporate Governance laws and firm value. For example, Linck et al. (2005), Wintoki (2007) and Basu and Dimitrov (2005) in their research on Sarbanes-Oxley's impact on firm value found no significant relationship between Corporate Governance reforms and firm value. Price et al. (2011) found no relationship between Corporate Governance recommendations (code of best practices) and firm value for Mexico. However, results from this study provide mixed views. In particular, the findings of this study reveal no significant relationship between show that the Corporate Governance laws and firm value for Mexico. In contrast, evidence from Colombia shows a positive relationship between the adoption of Corporate Governance law and firm value.

5.2 Contributions and recommendations

This research contributes to knowledge and proposes useful recommendations to investor, managers and regulators in the emerging markets of Colombia and Mexico.

The lack of a relationship between both board size and independence with firm value show that conventional wisdom and intuition based on Agency theory is not applicable and thus its straightforward implementation will probably not create value. Both managers and Investors – shareholders- in their quest for value creation via the appointment of an effective board of directors should focus more on the company's needs (monitoring, advising) and realities (ownership, size, etc.). Regulators and stock exchanges can use this research's results in future adjustments to regulations and recommendations that can promote capital

markets development in the region. The MILA Intergrated Stock Market (Colombia-Mexico-Peru and Chile) has put special emphasis for 2015 and 2016 in developing better governance practices for its listed companies.

The findings of this research provide useful insights for the corporate governance practices and policy making in emerging markets like Colombia and Mexico. One of the key issues highlighted in the research is that each country needs to develop corporate governance systems that are best suited to their business environment. As shown in this research, unlike the developed western markets, board size and higher percentage of independent directors does not seem to matter. This suggests that in emerging markets like Colombia and Mexico, investors do not seem to be overly concerned about these issues as long as firms tend to perform well.

5.3 Limitations and opportunities for research

This study represents a small portion of all possible Corporate Governance research for Latin America. It provides evidence of the relationship between two board attributes (size and composition), of CEO Duality and the adoption of Corporate Governance laws with value for only Colombia and Mexico. Limitations deal primarily with the data sample used since evidence only included listed companies for a period of 10+ years, which represents a small percentage of all companies and all observations in these two markets. Other countries were excluded such as Argentina, Venezuela, Peru and Chile.

Other limitations of this study pertain to the limited number of Corporate Governance Mechanisms studied.

These limitations provide interesting opportunities for further research in topics such as board capital, board diversity, frequency of meetings, management compensation, ownership, etc.

Both Colombia and Mexico have small capital markets where only a few companies have access to equity financing, which means that most companies use debt financing. Claessens and Yurtoglu (2012) propose further research on the Corporate Governance of financial institutions.

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